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T H E
BROOKINGS
R E V I E W

Winter 1988 Vol. 6, No. 1

3 Thinking About Arab-Israeli Peace

William B. Quandt

10 Air Safety, Deregulation, and Public Policy

Steven A. Morrison and Clifford Winston

16 At Last, Free Trade with Canada?

Philip H. Trezise

24 The Case for a National Welfare Standard

Paul E. Peterson and Mark C. Rom

33 The Permanent Minority Party in American Politics

Thomas E. Mann

39 Soviet Arms Control Policy in Perspective

Jerry F. Hough

46 New Publications

Raymond L. Garthoff on the Cuban missile crisis; A. James Reichley on the election process; Joseph A. Pechman on tax policy; Kenneth Flamm on the computer and national high-tech policy; Robert E. Litan on bank deregulation.

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Thinking About Arab-Israeli Peace

William B. Quandt

A PUBLIC OPINION POLL taken in early 1985 showed that the Camp David Accords, which led to the Egyptian-Israeli peace treaty in March 1979, was the U.S. foreign policy achievement that Americans most admired. Most Americans would doubtless still be pleased to see their government playing a constructive role in brokering further peace agreements between Israel and its other Arab neighbors. Despite this sentiment, remarkably little serious discussion occurs in this country about the "Arab-Israeli peace process," as it is somewhat euphemistically called. Why is this the case?

The obvious reason for the paucity of informed public discussion of Arab-Israeli issues is that many of our political figures, along with many pundits, do not much care to discuss in public the issues surrounding the Arab-Israeli conflict. These are controversial matters. Almost nothing that is said about Israel and the Palestinians is viewed as objective and analytical. Everyone is assumed to have a hidden agenda. Members of Congress, in particular, are unwilling to be labeled anti-Israel by the well-organized pro-Israeli lobby. So instead of informed discussion, we find cautious homilies about the need to promote the peace process and to encourage direct negotiations. Few bother to spell out how we can reach this goal.

I have participated in Arab-Israeli peace negotiations, including those at Camp David; I have written two books on the subject; and I am frequently asked to comment on current prospects. From these experiences I know how politicized these issues can become. But I also think there is a need for a framework for thinking about Arab-Israeli peace that highlights the main issues that stand in the way of a peace settlement. What follows is my attempt to sketch such a framework.

Some Common Fallacies

Before we can understand where the real problems lie in Arab-Israeli peacemaking, we need to clear away some commonly held beliefs that are misleading, at best, and quite often simply wrong. My candidates for the least helpful ideas are the following:

—The Israelis (less often the Arabs) sincerely want peace, but the Arabs (less often the Israelis) do not. That is the nub of the issue.

—Once the parties sit down across the table from one another in direct, face-to-face negotiations, progress can be made. Direct negotiations are the key to peace.

—If the United States and the Soviet Union could just agree on how to settle the problem, they could impose their blueprint on the parties. The first order of business is for the superpowers to resolve their differences.

Let us examine each of these propositions in a bit more detail. First, who wants

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peace? There is no easy answer to this question. In one sense, it is possible to say that most Israelis and Arabs want peace. But it is equally obvious that such broad statements do not mean very much.

I find the following questions more useful. How uncomfortable is the status quo? Who is prepared to give what in order to reach a peace agreement? What is the underlying concept behind the words peace, shalom, salaam?

With these questions in mind, hard-liners — Arab and Israeli — can be defined as those who are prepared to live indefinitely with the status quo and who are willing to offer very little for a formal peace agreement with their adversaries. This definition does not necessarily mean that the hard-liners do not want peace. Many of them no doubt do. But they want it on their own rigidly defined terms, they are not willing to compromise, and they do not feel any sense of urgency.

Very few in the Middle East are pacifists, willing to support an unconditional notion of peace. Nonviolence has not developed much of a following. So almost everyone who talks about peace has some conditions that would need to be met. Nonetheless, I think it is fair to say that the Arab-Israeli conflict has ceased to be an existential one for most of the participants.

Most Arabs no longer believe that Israel can be destroyed or wished out of existence. And most Israelis recognize that the Palestinian people do exist and cannot indefinitely be denied all political rights. This evolution in attitude may not seem like much progress, but compared with the rhetoric of an earlier era, it is. The Arab-Israeli conflict is becoming a normal conflict involving relations among states and the political future of a people. In theory, at least, it could be solved by conventional diplomacy. This does not

mean it will be solved. The conflict remains unusually complex. But significant numbers of people in each of the relevant constituencies are interested in a compromise peace and have begun to talk to one another about it.

Let us turn to the question of face-to-face talks. It is true that peace cannot finally be concluded if parties are unwilling to deal with one another. But that does not mean that direct negotiations are the key to peace. Direct contacts do take place between Arabs and Israelis, and yet little progress ensues. At Camp David in 1978 precious little direct contact occurred between Israelis and Egyptians, and when Menachem Begin and Anwar Sadat did meet, the talks nearly came to a halt.

Israelis and Palestinians both value the idea of direct talks largely for symbolic reasons, not because the record shows that they are the only way to conduct successful negotiations. The record does show that any serious peace process will involve a variety of procedures: secret talks; intermediaries; formal conferences; leaks to the press; speeches; interviews; and, yes, direct negotiations.

Finally there is the idea, especially popular in the Arab world, that the United States and the Soviet Union could impose a peace settlement. The sorry record of imposed solutions from the post-World War II period — India-Pakistan, Cyprus, and the attempt to partition Palestine, to mention a few — should raise some questions about the durability of imposed settlements. It may be true in some technical sense that the superpowers could impose their will on the Middle East parties, but in the real world of politics that is not at all likely. A crisis of enormous proportions would be required to create the necessary incentives for the superpowers to intervene, and even then their ability and willingness to impose a solution of their own would be in question. Their staying power would also be in doubt.

A prolonged truce might be imposed, and even maintained for a period of time, but a durable peace is another matter. Washington and Moscow are, of course, not without influence over the parties to the Arab-Israeli conflict. And a prolonged truce would certainly be better than war. But, for the moment, let us consider what it would take to broaden the circle of peace, not just to keep the lid on an explosive situation.

Five Conditions for Progress

Experience suggests that at least five interrelated conditions have to be met before serious progress can take place in Arab-Israeli peace negotiations. These five points are offered as a framework for analysis, not as a rigid checklist:

1. *Are the parties predisposed to settle the conflict?* Do they believe that some major national interest would be served by peace?

2. *Are the political leaders strong enough within their own societies to make the concessions that will be necessary for peace?*

3. *Is there a substantive trade-off that both sides of the conflict recognize as reasonably fair?* With such an agreed concept, negotiations could concentrate on details of implementation; without such a concept, negotiations would likely reach an early impasse.

4. *Is there a supportive external environment for the negotiations, including skilled intermediaries who can at times act as catalysts?* No Arab-Israeli agreement to date has been

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reached without such intermediaries.

5. *Have face-saving procedures for negotiations been found?* Can each party point to some symbolically important words or actions that will help to justify in terms of its own public opinion the decision to enter peace talks? This topic gets lots of attention but is probably not the most difficult problem for diplomats to resolve.

Let us look at each of these five points in greater depth.

Are the Parties Ready to Settle?

Since the signing of the Egyptian-Israeli peace treaty, the main Arab parties to the conflict with Israel have been the Palestinians, Jordan, and Syria. (Lebanon could be mentioned as well but mostly as an arena where the dispute plays itself out. The Lebanese government has no interest in the struggle against Israel and would happily settle, but it has so little authority that it cannot deliver on much of anything.) What are their incentives to settle?

In principle, the Palestinians stand to gain the most from a compromise peace settlement with Israel. Because their current situation is so precarious, any settlement that granted them a modicum of security and a firm political identity might be welcomed. Nonetheless, many Palestinians will also judge any settlement by the measure of how far it goes in restoring their national rights, a concept that can apply to all of Palestine. For most Palestinians, recognition of a Jewish state in even part of historic Palestine would be a major concession. Rather than recognize even a truncated Israel, some would prefer to continue to struggle and resist.

One senses that Palestinian opinion is divided along fairly obvious lines on the question of peace with Israel. Within the occupied territories — where more than one million Palestinians live — there is strong sentiment in favor of ending Israeli control through political means. But the Palestinians in the West Bank and Gaza are reluctant to challenge the role of the Palestine Liberation Organization (PLO) as their representative. The PLO, largely reflecting the views of the Palestinian diaspora, is less concerned with solving the day-to-day problems of the Palestinians in the occupied territories. It also tries to protect Palestinian interests elsewhere in the Arab world and feels a special obligation to the large refugee communities, who tend to be more militant than the West Bankers.

On balance, I would conclude that the Palestinians are interested in a political settlement, and might even be prepared to recognize Israel, in return for the right to establish their own political institutions in the West Bank and Gaza. But the PLO will want to be included in the negotiating process, at least through designated representatives, and will fight bitterly any attempt by Jordan or Syria to speak on behalf of the Palestinians.

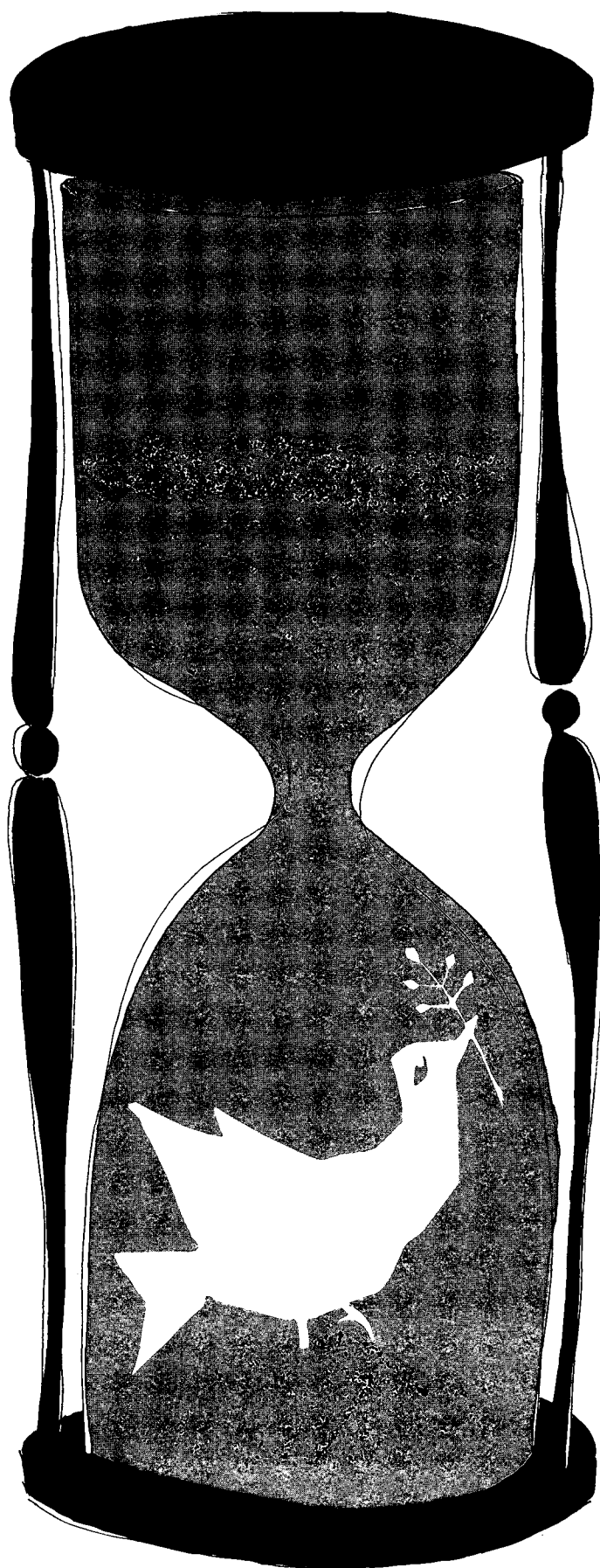
Turning to Jordan, one senses that King Hussein and his closest advisers do genuinely want to see the conflict with Israel brought to an end. For the king, a primary motive for seeking a settlement that offers the Palestinians a better future in the West Bank is his fear that Palestinian aspirations, if thwarted, will eventually seek an outlet on the East Bank of the Jordan. Given the preponderance of Palestinians in Jordan's demographic makeup, the king is particularly anxious to anchor the Palestinian political identity to the west of the river. The king also worries that

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Jordan will be caught up in future wars and instability that will inevitably be the result of the ongoing impasse in negotiations. Relative moderation and pragmatism of the sort the king has propounded will be under siege, he believes, if the Palestinian issue continues to fester. But the king cannot negotiate for the Palestinians without a mandate from them, however strong his motivation to do so might be.

The Israeli scene is dominated by the deadlock between the two big political blocs, Labor and Likud. Labor seems ready to negotiate with Jordan and non-PLO Palestinians but does not say much about what it would be willing to offer. A main concern for the Labor politicians is the demographic reality of present-day Israel. Without a peace settlement that disentangles Israel from the West Bank and Gaza, Israel will be well on its way to becoming a binational state. If political rights are denied to the large Arab minority, Israel will resemble South Africa. Many Israelis would relinquish much of the occupied territory to avoid the painful dilemma of either remaining democratic but ceasing to be a Jewish state or remaining a Jewish state but ceasing to be democratic.

Likud and its allies do not see any urgency in reaching a peace settlement with the Arabs. They feel that time is on their side, that the Arabs are weak and in disarray, that the demographic problem is still over the horizon, and that the available avenues for negotiations are all stacked against Israeli interests. The ideologues within the party genuinely believe in the integrity of Eretz Israel and are not prepared to consider territorial withdrawal from the West Bank under any circumstances.



Likud's disinterest in a peace settlement in present circumstances is mirrored in Syria. President Hafiz al-Asad has expressed deep skepticism about the current possibility of a peaceful settlement with Israel. He has propounded the notion of "strategic parity," by which he means that Syria (and other Arab nations if possible) must be able to confront Israel from a position of strength before entering into any diplomatic efforts to regain their rights. Syria also has a rather inflated view of its role in the conflict with Israel, seeing itself as upholding Arab honor, not merely haggling for the return of Syrian territory. Asad views Palestine as a pan-Arab problem. While paying lip service to the idea that the Palestinians should have the last word on terms of any settlement, Syria makes clear that it sees itself as an interested party.

This overview of the predispositions of the parties to the conflict suggests that incentives are at work to move toward a settlement, but that in every case countervailing considerations exist as well. In the real world of diplomacy, one would probably conclude that the situation nonetheless contains enough to work with, provided the impasse in Israel can be broken and Syrian negativism can be overcome. But successful negotiations require much more than positive predispositions on the part of the parties.

How Strong Are the Political Leaders?

In the 1970s, when serious progress was made in settling parts of the Arab-Israeli conflict through negotiations, the leaders in Israel, Egypt, and Syria were all quite strong. That has not been the case in the 1980s. Almost without exception, leaders in the region are more on the defensive, more preoccupied with internal problems, and less willing to take risks.

In Israel a test of political strength took place in spring 1987. Foreign Minister Shimon Peres, leader of the Labor party, tried to win support within the cabinet for a set of guidelines that would govern negotiations with King Hussein. The sticking point was the acceptance by Israel of the format of an international conference. Prime Minister Yitzhak Shamir, head of the Likud bloc, was adamantly opposed to such a conference. The cabinet split down the middle. No decision could be taken and the Peres initiative came to an abrupt halt. This stalemate could change, but no one expects the next elections, to be held before the end of 1988, to alter significantly the political lineup.

Asad is still the uncontested ruler in Damascus, but there are questions concerning his health and who will succeed him when he passes from the scene. Many believe that Asad, because of his origins in the minority Alawite community, needs to adhere to a particularly firm line on the Palestinian issue to retain Sunni Muslim support. Whether or not such considerations play a part in Asad's calculus, he has shown himself to be a wary and tough negotiator. To join negotiations, he would have to be convinced that Syria had something tangible to gain. His more typical posture in recent years has been to wait on the sidelines and then to intervene harshly to block moves that seem detrimental to Syria's interests.

If King Hussein were to decide to enter negotiations with Israel, he could certainly count on the support of many in his country. His problem lies elsewhere. The Palestinians in the West Bank and Gaza show little loyalty toward the

Hashemite monarchy in Jordan, and the Palestinians in the diaspora are even more suspicious of Jordan. So the king's political strength at home does not translate into a mandate to speak on behalf of the Palestinians. For this reason, the king has always felt that he needed some political cover, either from the PLO or from other Arab parties, especially the Syrians.

Yasir Arafat has been head of the PLO for nearly 20 years, but he has never been free of challenges from others. The Palestinian movement is a coalition with a number of different tendencies, and Arafat's survival in power has depended on his ability to offer something to each of the major constituencies. This strategy has provided a measure of apparent unity, but the price has been uncertainty and lack of discipline on many crucial issues. Arafat has found it difficult to keep his closest allies with him as he has negotiated with King Hussein in the past. Any major concessions toward Israel would also bring splits in the PLO. As a result, Arafat often seems to be waiting for others to make moves toward him that will provide him with ammunition to use against his critics. Despite all of these shortcomings, no one other than Arafat has succeeded in becoming a powerful symbol of Palestinian aspirations, and this alone gives him considerable authority.

Finally, a word must be said about President Hosni Mubarak of Egypt. Unlike Sadat, Mubarak has been a cautious leader. He has avoided dramatic gestures and has concentrated on domestic affairs. He has not sought a major role in the current phase of Arab-Israeli discussions and is unlikely to alter this stance. Nonetheless, he has adhered to the treaty with Israel, and Egyptian officials have been authorized to play an active behind-the-scenes role in trying to bring Jordan and the PLO together. But that is about the extent of Egypt's likely contribution in the Mubarak era.

Is There an Identifiable Substantive Trade-Off?

Since 1967 all serious initiatives to resolve the Arab-Israeli conflict have been based on UN Resolution 242, the central premise of which is that Israel would exchange territory occupied in the 1967 war in return for peace, recognition, and security from its Arab neighbors. Some of the limitations and inadequacies of the "land for peace" formula, as the resolution is often called, were noted soon after its passage. It said nothing explicitly, for example, about the Palestinian demand for political status. It was vague on how much territory Israel should evacuate. And it was sparse in spelling out the meaning of peace and security. Nonetheless, the formula proved to be a sound foundation for the Egyptian-Israeli negotiations.

By the time Anwar Sadat made his historic trip to Jerusalem in November 1977, he knew with reasonable clarity that he would recover nearly all Egyptian territory in return for making peace with Israel. Even so, the negotiations over the details of this exchange took well over one year to bring to a conclusion.

Today there is no comparable convergence on a substantive concept for the negotiations. As a result, the parties tend to focus on procedural issues. On the Arab side, the land for peace model is still the most compelling for those who favor negotiations with Israel. Sadat's achievement, if replicated in the West Bank and the Golan Heights, would

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be acceptable to many Arabs. But few Israelis are now prepared to suggest such a trade-off. Even those who do favor "territorial compromise" are rarely willing to suggest a very extensive Israeli pullback.

If there is an area of consensus in Israel concerning the substance of a peace settlement, it seems to revolve primarily around what is unacceptable. Most Israelis rule out withdrawal to the 1967 lines, relinquishing control over east Jerusalem, and the creation of an independent Palestinian state. The ostensible reason is security, although ideology also plays a part for some Israelis. What remains as a possible area of consensus is a concept borrowed from the Camp David Accords, namely an interim agreement along "functional" lines. Under such an agreement, Israel would turn over control of some administrative functions to West Bank and Gaza Palestinians for an interim period, during which the final status of the territories would be left unresolved. Meanwhile, Israel would retain control over security.

From Camp David onwards, the idea of negotiating an interim agreement along functional lines has been vigorously debated by all the parties to the conflict. It has never seemed very attractive to the Arab parties, however, for three primary reasons. First, an interim agreement on "autonomy" seems unlikely to offer the Palestinians living under occupation much in the way of control over land, water, economic activity, and political expression. Without major changes in these areas, most Palestinians see little of interest in the various autonomy schemes. Second, the Palestinian diaspora has almost nothing to gain from an interim agreement. The political status of these Palestin-

ians would remain vulnerable, and they worry that a prolonged, open-ended autonomy would drive wedges between them and the Palestinians in the West Bank and Gaza. Third is the question of where an interim agreement would lead. Would it be an end in itself, as Likud maintains, or could it be a step toward a final agreement based on the land for peace formula, as the Americans (and Egyptians) maintain? Since there is no Israeli consensus on these matters, no answers can be given.

In the absence of a reasonably clear substantive focus for negotiations, it is extremely difficult to persuade the parties to the conflict that negotiations might make both parties better off. So little of an agreed framework for negotiations exists that the parties tend to be paralyzed by their fears or by their perceptions of the current balance of power.

Instead of seeing the next stage of negotiations as holding the potential of the Egyptian-Israeli peace of 1979, the parties are closer in spirit to the period of the so-called Sinai II agreement of 1975. In that case, neither Egypt nor Israel was enthusiastic about the agreement that was reached; both were persuaded to go forward only after the United States made massive commitments of diplomatic and economic resources.

Is the International Environment Supportive?

To date no agreements between Israel and its Arab neighbors have been negotiated without some third-party involvement. The role of third-party intermediary has fallen most often to the United States, but the United Nations has also been involved in providing an international framework for previous peacemaking efforts.

Between 1974 and 1979 the United States was unusually active in promoting Arab-Israeli peace talks. Five formal agreements were signed as a result, the most important of which was the Egyptian-Israeli peace treaty of March 1979. Since then, the U.S. role has been more low-key, often

focusing on procedural rather than substantive issues. In recent years the Reagan administration has argued that a relatively detached posture for the United States has the virtue of putting maximum pressure on the parties to the conflict to engage seriously in negotiations, while avoiding the problems associated with raising expectations to unrealistic levels. Whatever the merits of the theory, the results have been unimpressive. The Lebanese-Israeli agreement of May 17, 1983, was torn up the following year. On the Jordanian-Israeli front, some progress was made through secret diplomacy, but not enough to start open negotiations leading to formal agreements. Indeed, the most that the Reagan administration can say is that it has helped to facilitate informal understandings between Israel and Jordan aimed at improving the "quality of life" in the West Bank. The political implications of these steps, however, are unclear.

The theory of mediation followed by the Reagan administration might work quite well if strong regimes shared a fairly clear notion of what the substantive trade-offs could be. If those conditions prevailed, a mediator could hold back until the final phase of negotiations, until the gap had been narrowed, the issues crystallized. But the presence of weak, divided regimes and the lack of substantive convergence argue against pursuing this approach.

If negotiations are to begin — in contrast to working out tacit understandings — then some form of international framework seems inevitable. This is primarily a requirement of the Arab side, especially King Hussein. For Jordan, it is essential to have either the Syrians or the PLO (or both) involved in negotiations with Israel in order to provide a diplomatic cover for Jordanian-Israeli talks. The Soviets may be in an influential position to convince these parties to join the negotiations. And once the Soviets are involved, one is talking about an international conference.

The arguments against such an unwieldy forum are well

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known. There is little evidence that the convening of an international conference by itself will help to resolve substantive issues. There is considerable danger that the two superpowers will line up on opposite sides of issues, perhaps thereby adding rigidity to an already complex negotiation.

Despite these qualms, a wide area of consensus has formed in the international community on the desirability of an international conference on the Arab-Israeli conflict. Egypt, Jordan, and many Palestinians are enthusiastic supporters. The Labor half of the Israeli government is in favor of it. The United States and the Soviet Union both favor it in principle but differ on details. Syria is skeptical but has not expressed strong opposition. Only the Likud half of the Israeli government is adamantly opposed.

For the first time since 1977, the United States and the Soviet Union may both be willing to deal with one another in a constructive manner on a range of Middle East issues, including the Arab-Israeli conflict. This possibility offers some hope in an otherwise bleak picture. But at the same time, Arab-Israeli peacemaking is not a top priority in either Moscow or Washington.

Can Face-Saving Procedural Arrangements Be Found?

A great deal of diplomacy seems to revolve around procedural details. Procedural problems, however, are not a major reason for the impasse in negotiations. When the time is ripe, these problems can usually be resolved in short order. Often the debate over procedures is a stalling tactic or a way of warding off pressures on other issues.

Nonetheless, several important procedural problems do have to be addressed if negotiations are ever to be successful between Israel and its Arab neighbors. First is the question of who negotiates for the West Bank and Gaza. The Americans and the Israelis tend to see King Hussein as the *interlocuteur valable*, but the king himself has spoken in recent times of a joint Jordanian-Palestinian delegation. When the PLO and Jordan were cooperating, as they did in the early part of 1985, it seemed possible that such a delegation could be formed in a way that would be acceptable to both Israel and the United States. That possibility remains but presumes a considerable improvement in PLO-Jordanian relations.

A second serious procedural issue involves how Syria could be given a role in discussing the Palestinian question without thereby placing a veto in Asad's hands. This dilemma was a major stumbling block in 1977, at the time of the preparations for the Geneva conference, and is still an unresolved issue. Most of the prospective participants in an international conference have supported the notion that a conference should neither dictate nor veto the results of bilateral negotiations, a position that does not really take care of Syria's concern that it will be left to discuss only the Golan Heights and not the broader regional issues it is interested in.

Finally, a number of issues involve the actual convening and organizing of an international conference, most of which could probably be resolved if Israel and the key Arab parties make a decision in principle to go to such a conference. For the moment, no such decision can be taken until the Israeli political impasse is broken.

Prospects for Peace

This analysis leads to the conclusion that the prospects for a breakthrough in the Arab-Israeli peace process are not very promising at present. Admittedly, there has been some important evolution in attitudes on both sides of the conflict, to the point that existential issues no longer crowd out more concrete concerns over borders, security arrangements, economic relations, and political identity. Still, the conflict is unusually complex, and the parties, left to their own devices, seem unable to do much more than reach tacit accommodations of uncertain durability. Optimists believe that the status quo can go on in this fashion for a long time. Pessimists fear an eventual explosion or at least a sharp deterioration in the situation.

On balance, I side with the pessimists. The Arab-Israeli conflict is extremely hard to stabilize without some significant change in the status quo. Even the Egyptian-Israeli peace could be put under severe strain unless some further progress in negotiations takes place. No single development can ensure success, but the following examples illustrate how the current impasse might be broken.

— The United States and the Soviet Union, as part of the general improvement in their relations, could jointly call for an international conference. Meanwhile, the Soviet Union could facilitate Israeli acceptance of the idea of a conference by reestablishing normal diplomatic relations with Israel and relaxing constraints on Jewish emigration.

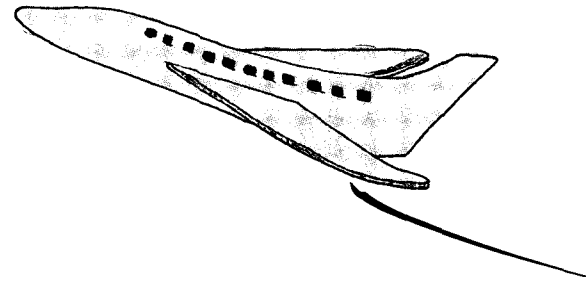
— New elections in Israel might produce a slight shift toward the peace camp. Even the change of a few seats in the Knesset would be enough for Israel to begin negotiations, although a larger majority would probably be needed to support major concessions.

— A new American administration might place a higher priority on Arab-Israeli peace issues. New administrations may, of course, make errors in their first efforts at Arab-Israeli peacemaking, but they are also taken seriously simply because they are new and their positions are not quite predictable. This offers some scope for initiative.

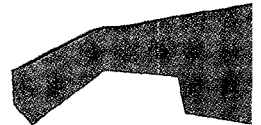
— Syria and Israel could go to war, and the superpowers might be drawn to the brink of confrontation, as they were in 1973. In the aftermath of such a crisis, all parties might be ready for a serious round of diplomacy.

— Some would add to this list a peace initiative from the Arab side, comparable in impact to Sadat's trip to Jerusalem. Such a dramatic move seems highly unlikely, but even smaller steps on the Arab side, such as an unequivocal PLO commitment to peaceful negotiations, might have some impact on Israeli opinion. Ongoing Israeli-Palestinian discussions are a step in the right direction.

The situation is not very encouraging for those who favor Arab-Israeli peace. A great deal needs to be done by all parties before a more optimistic prognosis can be justified. But things rarely stay frozen for long in the Middle East, and the challenge will be to find the combination of circumstances and leaders that can increase the presently slim chances for the peace process. Success will never be guaranteed in advance. For the United States, however, the gains from progress toward Arab-Israeli peace far outweigh the risks. As controversial as it may be, a new attempt at promoting Arab-Israeli peace, of necessity within a broad international framework, should be high on the list of the next president's foreign policy initiatives.



Air Safety, Deregulation, and Public Policy



**Steven A. Morrison
and Clifford Winston**

EVEN THOUGH the number of fatalities per passenger-mile flown has steadily declined since commercial aviation began, fear of flying in the United States has reached dramatic proportions in recent months. A series of navigational errors, catastrophic crashes that killed 156 people last August and 28 in November, and frequent reports of near misses have rendered "the facts" irrelevant. The inarguable public perception is that commercial air transportation safety is declining and that something must be done about it.

Many people are blaming airline deregulation for the alleged erosion of safety, accusing the airlines of sacrificing safety to improve profits. Some members of Congress are calling for reregulation.

Although the facts show that air travel is extremely safe, improvements are always possible. But we conclude that reregulation of air fares and of air carriers' entry into and exit from individual markets will not enhance air safety. The substantial benefits that economic deregulation has provided to the flying public have not been at the expense of safety. Measures to improve air safety should be directed at the major causes of accidents. Focusing on deregulation as a factor only distracts attention from designing and implementing effective safety policies.

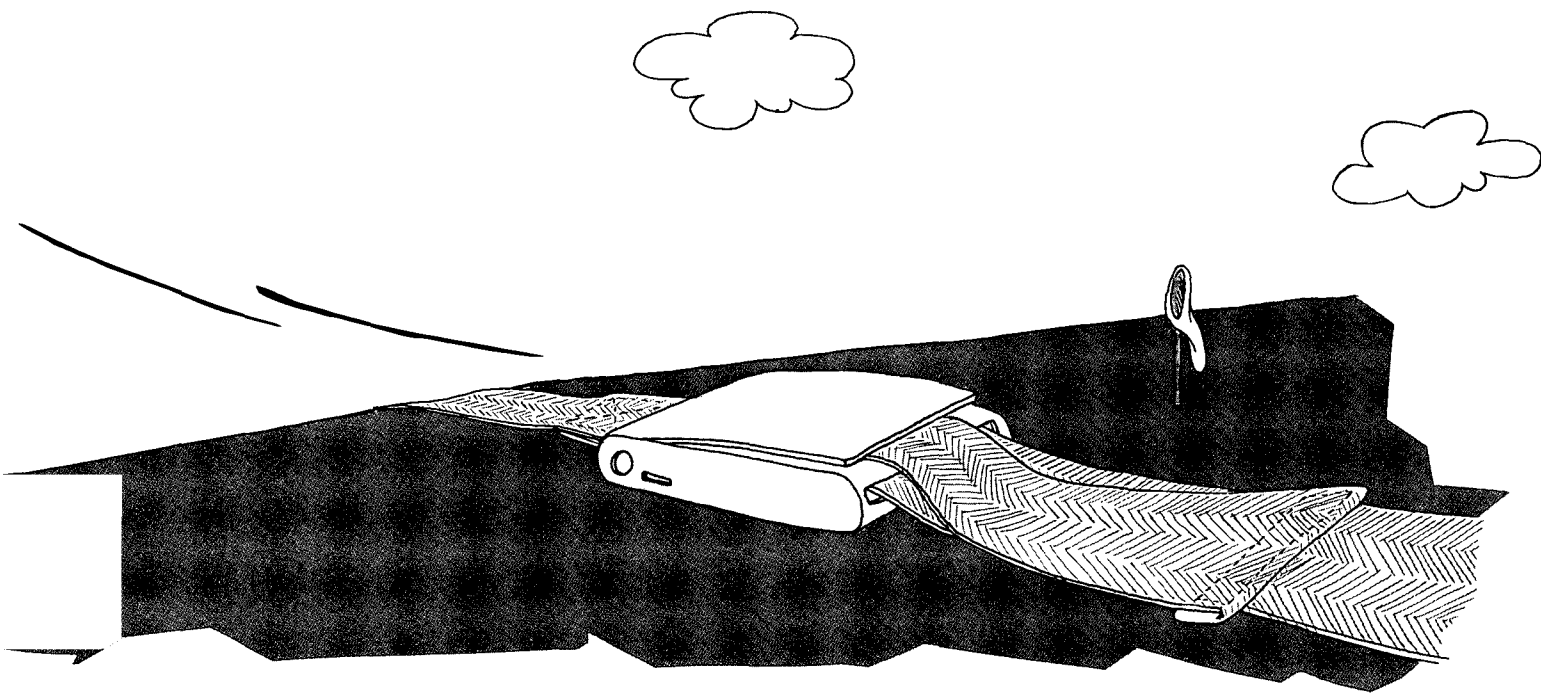
Regulatory Policy and the Causes of Accidents

In 1938, when the fledgling airline industry's economic affairs came under the regulatory authority of the U.S. government, the Civil Aeronautics Authority monitored both safety and economic regulation. Twenty years later, the Federal Aviation Administration (FAA) was established to supervise airline safety, while the Civil Aeronautics Board (CAB) was limited to regulating economic operations.

The Airline Deregulation Act of 1978 ended this joint arrangement by eliminating economic regulation. At the time critics of the act warned that deregulation would compromise safety. Today the critics' voices are louder. They charge that in response to intensified competitive pressures brought on by deregulation, carriers are cutting costs by curtailing maintenance and hiring less-experienced pilots and mechanics. Defenders of deregulation, meanwhile, argue that potential and actual competition forces carriers to maintain high safety standards.

Who is right? The issue has been studied in three ways — by comparing accident rates before and after deregulation, by using statistical analysis to isolate the effect of deregulation on the accident rate and near misses, and by determining the relation between airline financial performance and accidents.¹ These studies generally conclude that deregulation has not impaired safety.

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However, because they do not focus on the causes of accidents and on perceptions of the adequacy of air safety, these analyses are not fully convincing and do not offer policymakers guidance for improving safety.

Identifying the causes of accidents not only provides a basis for considering what can be done to improve safety but also refutes allegations made about the effect of deregulation on safety. The National Transportation Safety Board (NTSB) determines the factors that contribute to an accident and writes detailed reports explaining its findings. We examined these individual reports to compile the leading contributors to U.S. commercial airline accidents (excluding commuters, which were never subject to CAB regulation) involving fatalities for a regulated period (1965–75), a deregulated period (1976–86), and for two subperiods within the deregulated period (see tables 1 and 2).²

The absolute number of fatal commercial accidents and midair collisions has declined significantly, from 42 in the regulated period to 15 in the deregulated period. The decrease has occurred even though departures and passenger-miles, as reported by the Air Transport Association, have increased by 8 percent and 52 percent respectively. The general improvement in air safety has also continued within the deregulated period.

Nonetheless, some critics have claimed that deregulation has led airlines to cut maintenance and to hire less-experienced pilots and mechanics, thus eroding safety.³ In fact, deficient maintenance has contributed to only one fatal accident during deregulation and none during the second half of the period. The incidence of pilot error and defective aircraft has also declined from the regulated to the deregulated period and, perhaps more significantly, declined within the deregulated period. The finding does not change when accidents are weighted by number of fatalities.

Furthermore, table 3 shows that the average age and flying experience of pilots (captains) involved in accidents are higher for the deregulated period, a finding that is unchanged when only those accidents involving pilot error are considered. Although the averages are not statistically

different across periods, they at least do not indicate that less-experienced pilots are increasingly involved in accidents.⁴ Table 3 also shows that airframe hours of planes involved in accidents have increased, but hours have increased even more for the industry fleet, reflecting the timing, replacement, and aircraft retirement decisions during this period and perhaps increased aircraft utilization following deregulation. Thus, it is not necessarily the case that planes involved in accidents during deregulation have been excessively flown. (This conclusion was unchanged when we considered airframe hours only in accidents where defective planes were a contributor.)

Generally, the relative importance of contributors to accidents has remained stable over the two periods. Moreover, only pilot error and weather are frequent contributors. Air traffic control errors and defective aircraft are cited less frequently, while maintenance and airport facilities are rare contributors. Pilot fatigue and company pressure, mentioned by some as possible contributors to accidents, have never been cited in NTSB reports on accidents involving commercial airlines, although they have been cited in general aviation accidents.

Deregulation and Perceptions of Air Safety

Despite the decrease in commercial airline accidents since deregulation, many people believe the recent increase in near misses is proof that deregulation has eroded safety. While it is true that the number of near misses has gone up, so too has traffic volume, and a recent study shows that the increase in near misses has borne a stable relation to the growth in traffic volume.⁵ So, at the current level of flight activity, the rise in near misses is not an indication that deregulation per se has impaired safety.

Obviously, the absolute number of near misses and accidents can be reduced simply by limiting the number of flights. However, trying to improve safety by restricting flying activity, for example by setting capacity levels at the busiest airports, is arbitrary and imposes substantial costs

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Table 1.
Major Contributors to Fatal
Commercial Air Accidents,
1965–86

Contributor	1965–75		1976–86	
	42 accidents, 10 midair	Order of importance	15 accidents, 1 midair	Order of importance
Pilot error	32	1	12	1
Weather	18	2	8	2
Traffic control	9	3	5	3
Aircraft/engine	7	4	4	4
Maintenance	2	5	1	6
Airport facilities	0	6	2	5

Table 2.
Major Contributors to Fatal
Commercial Air Accidents
During Deregulation

Contributor	1976–80		1981–86	
	9 accidents, 1 midair	Order of importance	6 accidents, 0 midair	Order of importance
Pilot error	7	1	5	1
Weather	4	2	4	2
Traffic control	3	3	2	3
Aircraft/engine	3	3	1	5
Maintenance	1	5	0	6
Airport facilities	0	6	2	3

Table 3.
Characteristics of Pilots
and Aircraft
in Fatal Accidents

Characteristic	1965–75 average	1976–86 average
Pilot age	44.95	47.40
Pilot total flying hours	14,622	17,488
Pilot total flying hours in aircraft type in accident	2,481	4,329
Airframe hours of aircraft type in accident	15,685	23,876
Airframe hours, industry average	19,843	28,335

Sources: Individual National Transportation Safety Board Accident Reports, 1965–86.
Industry airframe hours average based on all Boeing aircraft; data supplied by Boeing
Commercial Aircraft Company.

on travelers and airlines. Assessments of air safety and proposed policies to improve safety cost-effectively must pertain to a given level of traffic.

Aviation insurers' perceptions of how the change in regulatory policy has affected safety have surprisingly been neglected in the air safety debate. Companies that sell passenger liability and hull (aircraft) insurance to airlines must be able to assess the link between regulatory policy and accidents accurately if they are to remain in business. If deregulation has increased accident probabilities, then aviation insurance companies should raise their rates to reflect the greater danger. This hypothesis can be investigated statistically by estimating the determinants of insurance companies' passenger liability and hull insurance rates, focusing on the insurers' response to the change in regulatory policy.

In workable competitive insurance markets, insurance premiums reflect insurers' costs of doing business. Those costs, in turn, depend on the probability of an accident and the size of the loss from an accident. In the case of aviation insurers, the probability of an accident could be expected to depend on a measure of flying activity such as the number

of airline departures; on the number of FAA controllers; on technological change and industry learning; and possibly on the state of the regulatory environment. From an insurer's vantage point, the loss from an accident would depend on passengers' income, average compensation per fatality, and the value of airline equipment.⁶

Thus, the question we address is: what impact has the change in the regulatory environment had on the airline industry's insurance expenses, holding the level and characteristics of flying activity constant but allowing safety-related factors that may be influenced by regulatory policy to vary? To answer this question, we sought to explain with regression analysis the behavior of quarterly airline industry (majors and nationals) passenger liability and hull insurance expenses from 1970 to 1986, a time period that spans both regulation (first quarter of 1970 to the third quarter of 1978) and deregulation (fourth quarter of 1978 to the fourth quarter of 1986).⁷

There is no doubt that deregulation has influenced flying activity and possibly influenced safety practices (maintenance expenses, for example). We include departures in our specification to control for the level of flying activity,

Table 4. Influences on Insurance Expenses, 1970–86

Influence	Passenger Liability (PL)		Hull Insurance (HI)	
	Sign	Statistically Reliable	Sign	Statistically Reliable
Deregulation dummy	—	yes	—	no
Departures	+	yes	+	yes
Controllers	+	no	—	yes
Passenger income	+	yes	...	...
Average compensation per fatality	+	yes	...	...
Value of aircraft equipment	...	...	+	yes
Time	—	no	—	yes

Note: The mathematical forms of the estimated equations *PL* and *HI* are shown below. In both equations, the deregulation dummy takes on a value of 0 for 1970:1–1978:3 and a value of 1 for 1978:4–1986:4. Standard errors appear in parentheses.

$$\begin{aligned}
 PL = & -150,700,000 - 6,980,000 \text{ deregulation dummy} + 88.15 \text{ departures} + 151.00 \text{ controllers} + 1,005.13 \text{ passenger income} \\
 & (36,700,000) \quad (3,730,000) \quad (11.74) \quad (668.36) \quad (452.38) \\
 & + 52.30 \text{ average compensation} - 152478 \text{ time.} \\
 & (19.40) \quad (303387) \\
 R^2 = & 0.83; 68 \text{ observations; Durbin-Watson statistic} = 2.13
 \end{aligned}$$

$$\begin{aligned}
 HI = & -13,580,000 - 3,760,000 \text{ deregulation dummy} + 56.09 \text{ departures} - 1,835.74 \text{ controllers} \\
 & (35,650,000) \quad (6,820,000) \quad (18.80) \quad (948.30) \\
 & + 1.45 \text{ value of aircraft equipment} - 543197 \text{ time.} \\
 & (0.70) \quad (249275) \\
 R^2 = & 0.46; 68 \text{ observations; Durbin-Watson statistic} = 2.16
 \end{aligned}$$

Sources: Authors' calculations. Data for quarterly passenger liability and hull expenses, for number of quarterly departures, and for value of aircraft equipment (in thousands of dollars) by majors and nationals are from the Air Transport Association; total number of FAA controllers are from the FAA; data for average annual income of airline passengers (in dollars) are from the Gallup Organization; data for the average annual compensation per air fatality (in dollars) at time of compensation are from the Rand Corporation. All financial variables are in constant 1986 dollars, using the Gross Domestic Product deflator.

which, as discussed previously, is necessary when evaluating a policy's effect on safety. Variables that influence safety and that might be expected to vary because of the change from regulation to deregulation (for example, competitive pressures, pilot training and experience, maintenance expenses) are captured by a dummy variable.⁸

If deregulation has adversely affected safety, the dummy variable will have a positive sign, indicating that insurance expenses have increased when other factors are held constant. Conversely, if deregulation has enhanced safety, the dummy variable will have a negative sign, indicating that insurance expenses have fallen. We expect several other relationships to emerge from the statistical analysis. An increase in departures should have a positive effect on passenger liability and hull insurance expenses because it raises the carriers' exposure to an accident. Conversely, an increase in controllers should have a negative effect because it lowers exposure to accidents for a given volume of traffic. Passenger income and average compensation per fatality should have positive influences on passenger liability expenses, just as the value of equipment should have a positive influence on hull insurance expenses. Finally, technological change, captured by a time trend, should have a negative sign if it has improved safety.

Our estimation results are presented in table 4. The deregulation dummy has a *negative* sign for both passenger liability and hull insurance, indicating that airline insurers perceive that deregulation has actually enhanced safety. This result is statistically reliable for the passenger liability market but is less so for the hull insurance market. Notwithstanding the qualifications on statistical reliability, deregulation lowered airline insurance expenses by roughly 22 percent over what they would have been had regulation continued. Apparently the strength of market forces (from potential and actual competition) leading to increases in safety has outweighed the alleged tendency for air carriers to sacrifice safety in the face of increased competition.⁹

Some of the other results from the statistical analysis are noteworthy. Insurers perceive that the marginal effect of controllers on air safety is negligible. Controllers have a statistically insignificant effect on passenger liability expenses and a small statistically reliable effect on hull insurance expenses. The finding that an additional controller reduces industry quarterly hull insurance expenses by \$1,835 (1986 dollars) suggests that a controller's marginal contribution *in this area* does not offset much of his wage. The remaining variables generally have their expected sign and are statistically reliable.¹⁰ These plausible responses add to the credibility of our conclusions regarding safety and deregulation.

Policy Implications

The most important policy-oriented finding of our analysis is that deregulation has not reduced air safety. Policies to improve air safety should be motivated by the major causes of accidents. Although it has decreased over time, the frequency with which pilot error and weather have contributed to accidents suggests that policies directed toward these problems have the greatest potential to improve safety. However, such policies must be shown to be cost-effective. A particular government expenditure may improve air safety, but if the expenditure does not produce a commensurate level of benefits, then society is worse off because those resources could have more productive uses. In addition, a particular policy could reduce *total* transportation safety if it imposed costs on airlines that induced enough travelers to switch to a less safe mode, such as automobile, because of higher fares.

Pilot error is the leading contributor to accidents despite the substantial resources devoted to crew training. For example, the United Airlines Cockpit Management Resource program is one of several where pilots use simulators to recreate real crashes that could have been averted if pilots had performed differently. Given that a

"However, safety may be compromised if surveillance, inspection, and airport facilities do not keep pace with the growth in traffic volume. . . . Expenditures from the [aviation] trust fund can be used to tackle this problem as well as the problem of delays."

specific carrier is involved in an accident so infrequently, crew training and performance monitoring and communications between crews and with controllers may not always be at the highest standard. A Delta executive's positive reaction to FAA's recent inspection of Delta's cockpit operations following that airline's string of near misses and navigational errors during the summer suggests that airlines can benefit from periodic evaluations of their crew operations.¹¹ Competition generally provides sufficient incentives for airlines to employ highly competent crews.¹² But lapses occur, and over time they contribute to a large share of accidents. The FAA should take a strong lead in eliminating these lapses in a cost-effective manner.

Improvements in aircraft design and in weather detection and forecasting have reduced the incidence of weather-related accidents, but hazardous weather is still a serious threat to air safety. The most effective way to reduce this threat is by making further improvements in hazardous weather detection, forecasting, and flight assistance. The FAA's National Airspace System plan is potentially a positive step. It will upgrade traffic control technology; introduce Doppler weather radar, which gives earlier warning of wind shears; and institute microwave landing systems, which among other advantages assist pilots during bad weather.

The plan, however, has been the subject of considerable controversy. FAA has been criticized for being overbudget and behind schedule on the project, and the General Accounting Office has questioned the effectiveness of the wind-shear detection system. The proposed policy is not necessarily a problem, but its management and implementation may be. Again, effective FAA leadership is essential to enhance this aspect of air safety efficiently.

Air traffic control errors, defective aircraft, and inadequate maintenance have collectively contributed to only four commercial accidents (none of which was a midair collision) between 1981 and 1986. Airport-related accidents, resulting from inadequate clearing of ice and snow, contributed to only two accidents during this period. Accordingly, using the Aviation Trust Fund, as many have suggested, to hire additional controllers and inspectors and to finance major investments in airports can hardly be justified on the grounds that these resources address major contributors to accidents. However, safety may be compromised if surveillance, inspection, and airport facilities do not keep pace with the growth in traffic volume—air traffic controllers, for example, are already being forced to work very long hours. Expenditures from the trust fund can be used to tackle this problem as well as the problem of delays.

Since deregulation, the CAB, the FAA, the administration, and Congress have all been criticized for contributing to an erosion of air safety. The now defunct CAB does not deserve criticism. Deregulation has not reduced air safety. The validity of past criticisms aside, the FAA now has an opportunity to enhance air safety efficiently through effective monitoring of crew performance and effective management of the National Airspace System. It deserves criticism if it fails in these tasks.

By withholding funds to expand the air system infrastructure made necessary because of increased traffic volumes caused by deregulation, Congress and the administration may have contributed to an erosion of safety. They

must take the steps needed to ensure smooth air traffic flows at the increased volumes. This goal can be largely accomplished by aligning the number of traffic controllers with the current volume of traffic and by encouraging airports to adopt a peak-load pricing scheme that is based on the contribution each commercial and general aviation flight makes to congestion. If congestion is still a serious problem even with peak-load pricing, then financing the expansion of airport facilities could be justified. Failure to take responsibility for congested traffic flows could eventually lead to an increase in the accident rate.

1. William A. Jordan, "Economic Deregulation and Airline Safety," *Proceedings of the 21st Annual Meeting of the Canadian Transportation Research Forum*, 1986, pp. 246–56; Richard B. McKenzie and William F. Shughart II, "Deregulation's Impact on Air Safety: Separating Fact From Fiction," *Regulation*, forthcoming 1987; Nancy L. Rose, "Financial Influences on Airline Safety," MIT Sloan School working paper no. 1890–87, May 1987; Devra L. Golbe, "Safety and Profits in the Airline Industry," *Journal of Industrial Economics*, September 1986, pp. 305–18.

2. We define deregulation to begin in 1976 to equalize the duration of sample periods. This definition is partly justified because administrative fare deregulation began during that year. Defining deregulation as beginning in 1978 obviously reduces the frequency of accidents during deregulation, but it does not affect the order of importance of leading contributors to accidents.

3. See, for example, Robert Reed Gray, "Aviation Safety: Fact or Fiction," *Technology Review*, August/September 1987, pp. 33–40.

4. The Hotelling T^2 test was used to test simultaneously the pairwise equality of the mean pilot characteristics. We could not reject equality at the 25 percent significance level using equal sample sizes. Our conclusion did not change when we defined deregulation as beginning in 1978 or when we constructed means for subperiods within the deregulated period. Of course, an increase in the average age and experience of pilots throughout the industry may account for our findings. But such an increase would also be at variance with critics' perceptions.

5. McKenzie and Shughart, *op. cit.*

6. Average compensation per fatality, determined through litigation, controls for the cost of fatal injuries; income controls for the cost of out-of-court settlements and nonfatal injuries. It might also be argued that cyclical effects influence insurance premiums. We attempted to control for these effects by including real interest rates in our regressions, but this variable was highly insignificant.

7. These expenses include self-insurance expenses and insurance expenses for leased aircraft. According to an airline insurance executive we consulted, the quality of insurance, as reflected in deductibles, did not change significantly during this period.

8. When we explicitly controlled for maintenance expenses in our statistical analyses, its effect was statistically insignificant.

9. Defining deregulation as occurring in a later period (1980), to account for the possibility of lagged adjustment by insurers to the policy, strengthens this conclusion; defining deregulation as occurring in 1976, when administrative fare deregulation began, does not affect it.

10. Because of a dearth of air accidents during the early 1980s, the most recent data for average compensation per fatality applies to 1984. For 1985–86 we assumed nominal compensation grew with inflation. In addition, we estimated a model that specified a liability crisis dummy for 1984–86. It had a positive effect on insurance expenses, slightly reduced the compensation parameter, but had no effect on the other coefficients.

11. See Richard Witkin, "FAA Says Delta Had Poor Policies on Crew Training," *New York Times*, September 19, 1987.

12. For example, Andrew Chalk finds that the average loss in shareholder equity from crashes during 1966–79 was \$21 million. See Andrew Chalk, "Air Travel: Safety Through the Market," *Cato Policy Report*, July/August 1987, p. 15.

At Last, Free Trade With Canada?

Philip H. Trezise

ON OCTOBER 3, 1987, President Reagan notified Congress that he intended to enter into a free trade agreement with Canada. If all goes well — as will be seen, this is not necessarily a small *if* — a goal will have been realized that has eluded Canadian and American political leaders for 120 years.

The agreement Reagan announced would modify or sweep away a wide range of restrictions on transborder commercial and financial dealings. In that respect it goes beyond any agreement the two countries had ever discussed in the past. But the idea of a barrier-free commercial border is an old one in Canadian-American relations, older indeed than the Canadian Confederation itself. For in 1854 the United States agreed with the British North American colonies on a reciprocity treaty that provided for free trade in natural products, free navigation of the St. Lawrence and the Great Lakes, and reciprocal fishing rights off the Atlantic coast.

That treaty lasted a dozen years before the United States terminated it in 1866, in part because of resentment against British support of the southern states during the Civil War. With the British North America Act of 1867, the colonies confederated. Its leaders went to work promptly on a new reciprocity treaty, only to have successive initiatives in 1869, 1871, and 1874 rebuffed in Washington. The Canadian response under Prime Minister John A. Macdonald was to proclaim a National Policy of high tariffs to protect and develop domestic industry. The National Policy was to be the nation's guide for commercial relations with the United States over most of six decades.

Even so, forces in both countries continued to see attractions in an open border for trade. A famous instance was the reciprocity treaty that a Liberal government in Ottawa, responding to demands from the western provinces, concluded with the Taft administration in 1911. Unfortunately, 1911 was an election year in Canada, and the Liberals were soundly defeated after a campaign in which the Conservatives had made reciprocity, seasoned with anti-Americanism, the central issue. "No Truck nor Trade with the Yankees," was the winners' slogan.

This experience was taken in Canada to prove that no politician could gain by proposing a closer trading relationship with the United States. An opportunity to test that proposition did not present itself until the Great Depression. Until then, the high American tariffs of the post-World War I Republican administrations were matched by increased Canadian trade restrictions, including expanded discrimination against American goods under the Imperial preferences system. Not until 1935, after the passage of the U.S. Reciprocal Trade Agreements Act, was this contest in retrogression halted. The agreement signed that year, the first U.S.-Canadian trade pact since 1854, rolled tariffs back from the high level of the Smoot-Hawley Tariff Act of 1930. Another agreement in

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1938 reduced tariffs further and modified Imperial preferences as applied to Canada.

World War II over, a Liberal cabinet headed by Mackenzie King authorized exploratory talks with the United States on bilateral free trade. These secret talks apparently led to far-reaching agreement at the negotiators' level. But in the end King decided not to challenge the political lesson of 1911, and the tentative pact was quietly buried.

In 1965 an effort to avert an impending trade dispute led to an astonishing increase in the volume of tariff-free trade between Canada and the United States. Canada had set up a program of tariff remissions intended to promote automotive exports. This scheme had attracted an export subsidy investigation in the United States, carrying with it the threat of countervailing duties. As Ottawa was considering how it might respond, the American side suggested the possibility of moving to a tariff-free regime for motor vehicles and their components. After a series of discussions, the Automotive Products Agreement of 1965 was initialed and in 1966 came into effect.

The Canadian automobile industry had until then operated in a highly protected market at inefficient levels of output. As companies in Canada changed production patterns in response to a tariff-free environment, bilateral automotive trade burgeoned, rising in volume by 24 times in 20 years. Today autos account for more than one-third of all U.S.-Canadian trade.

Autos were an almost unique case — an industry owned and managed by Americans, producing identical goods on each side of the border, but with the Canadian segment unable to take advantage of potential economies of scale. Nevertheless, the extraordinary growth of trade after tariffs were removed seemed to promise that additional sectoral agreements could bring analogous results. In 1983 the Liberal government under Prime Minister Pierre Trudeau proposed to try. The Americans agreed. Four sectors — steel, agricultural equipment, urban transit equipment, and informatics (computers, telecommunications, and related services) — were selected. But negotiators could not arrive at "balanced" agreements, and the project was abandoned.

The sectoral talks were initiated only after intensive debate and discussion within the Canadian government. This debate continued after the Progressive Conservative party won an impressive victory in the national election of 1984. Sentiment, however, now turned toward a broader approach — comprehensive free trade with the United States. Finally, in September 1985, the supposed lesson of 1911 was rejected definitively. A Canadian prime minister, and one from the party of the National Policy at that, proposed to President Reagan a negotiation for a full-scale free trade arrangement. After long delay and by a cliff-hanging vote in the Senate Finance Committee, the American government accepted Prime Minister Brian Mulroney's proposal and set the negotiation under way in May 1986.

Issues in the Negotiation

Although the lineage of the agreement announced by President Reagan thus traces to 1854, its content differs materially from the earlier attempts to achieve Canadian-American "free" trade. In the first place, tariffs were neither

the centerpiece of the negotiation nor the most contentious issue. More difficult were some subjects not heretofore taken up in trade negotiations, notably services, foreign direct investment, and intellectual property. The preliminary text indicates that negotiators spent a substantial amount of time on sectoral issues: the automobile agreement, agriculture, cultural industries, alcoholic beverages, and energy. With tariffs scheduled for elimination under bilateral free trade, the negotiators had to agree on uniform rules of origin to assure that goods from third countries would not be able to avoid U.S. or Canadian tariffs.

But the most sensitive problem, the one that kept the negotiators at work until the absolute deadline, arose out of laws and procedures for dealing with subsidized or dumped exports. Both governments subsidize some exports, directly or indirectly, and companies on both sides of the border from time to time export goods at prices below those in the home market. Canada's subsidies, at least its subsidies to manufacturing, appear to be the more extensive, however, and are thought to be more vulnerable to countervailing duty actions. At any rate, the Canadian negotiators made clear from the start that some relief from the threat of American antidumping and antisubsidy laws would be critical to an agreement. This demand was not because Canada does not have and apply similar laws — it does — but rather because Canada believes that U.S. competitors are able to use the American laws to harass Canadian exporters and to deter potential investment in export-oriented companies or industries.

The Canadian emphasis on this point was matched by an American reluctance to tamper with its so-called trade remedy laws. First, it had to be expected that Congress would likely take a jaundiced view of any constraints on these deterrents to another country's "unfair" trade prac-

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direct investment, and
intellectual property."*

tices. Then too, special treatment for Canada in the application of trade remedies could give rise to political problems. If the United States accepted Canadian assertions about the adverse effect of these trade remedy laws, how would it convince other trading partners that they should not receive equally favorable treatment? Further, the General Agreement on Tariffs and Trade (GATT) makes an exception to its nondiscrimination provision for countries entering into free trade agreements of the kind intended by the United States and Canada. Whether the exception would also allow the differential application of trade remedy laws could be questioned, although it would hardly threaten the GATT's acceptance of the agreement.

In the event, the agreement reached on October 3 was surprisingly comprehensive. Canadian cultural industries represent the major exception; publishing, filmmaking, video recording, and radio and television communications will still be protected from competition. Otherwise, the negotiators were able to find an area of agreement on all the principal agenda items (see box, below).

An Assessment

Once ratified, the U.S.-Canadian agreement ultimately will need to be accepted as a free trade area under the terms of the GATT's Article XXIV (8b): "A group of two or more customs territories in which the duties and other restrictive regulations of commerce are eliminated on substantially all trade between the constituent territories in products originating in such territories." By meeting these conditions, the free trade area partners are absolved of the nondiscrimination, or most-favored-nation (MFN), obligation they had assumed under Article I of the GATT.

The history of Article XXIV and free trade areas leaves little room for supposing that the U.S.-Canadian pact will be successfully challenged under the GATT. Among free trade areas, the European Free Trade Association (EFTA) is clearly the candidate for comparison. The Stockholm Convention, the EFTA's constitution, eliminated tariffs and quantitative restrictions on industrial goods but excluded agriculture, services, and inward investment from its

Major Elements of the Far-Reaching U.S.-Canadian Trade Agreement

Tariffs. Bilateral tariffs are to be eliminated, including those on agricultural goods but presumably not those that apply to cultural industry products. Some tariffs will go to zero on ratification of the agreement, others will be eliminated in five annual stages, and a third category in stages over 10 years.

Quantitative Restrictions. Import and export quotas, unless allowed under the General Agreement on Tariffs and Trade, are to be eliminated, immediately or in defined stages. (The GATT exception relates to quotas imposed for health, safety, and like reasons.)

Customs. Special rules of origin are to determine eligibility for tariff treatment under the agreement. The customs chapter provides for the ending of policies or procedures that distort trade flows.

Services. Basically, the parties have written a statement of general principles to govern trade in services. Included will be national treatment, the right of establishment, the right of commercial presence, and transparency of laws and regulations. These and other principles in turn will apply to specified service sectors; the agreement mentions tourism, architecture, and enhanced telecommunications and computer services as the three service sectors to be covered in the first instance.

Financial Services. A separate chapter in the initial description of the agreement lists several liberalizing steps each party intends to take with respect to the activities and regulation of the financial institutions of the other.

Government Procurement. The agreement engages the two governments to expand and improve on, bilaterally, the commitments each has made in agreeing to abide by the multilateral government procurement code, which sets out

principles for opening government procurement to foreign suppliers.

Investment. Canada and the United States agree to give national treatment to each other's investors, to refrain from policies requiring minimum equity holdings by nationals in companies controlled by investors of the other country, to refrain from forced divestiture, and to provide fair standards for expropriation and compensation. They agree also not to impose performance requirements, such as minimum local content or export levels, on each other's investors. Canada will raise in stages the gross asset thresholds for Canadian companies that can be acquired directly or indirectly by Americans.

Industrial Standards. The final text strengthens the mutual rights and obligations that the two countries have under the GATT and its product standards code.

Energy. Somewhat unexpectedly, the agreement proposes to prohibit restrictions on imports or exports of energy and energy materials, subject to "very limited" exceptions for situations of short supply or considerations of national security. The agreement effectively precludes a repeat of the Canadian discriminatory energy pricing that occurred in the 1970s.

Agriculture. A number of modest liberalizing actions are to be taken by each of the parties. They agree that a primary goal is to achieve in the Uruguay Round of the GATT negotiations, currently under way, the elimination of all trade-distorting agricultural subsidies.

Automotive Trade. Tariffs not eliminated under the 1965 auto pact are to be reduced to zero in stages over five to 10 years. The long-standing Canadian embargo on imports of used cars will be eliminated in five years. Tariff remissions

coverage. It and 33 other regional free trade area agreements (including five between EFTA members and the European Community) have received tacit GATT approval. Some of them fall well short of meeting a strict interpretation of GATT conditions.

Comparison with the European Community's customs union would not be appropriate. A customs union implies free trade among its members, free movement of capital and labor within its confines, and a common tariff and commercial policy against all nonmembers. Neither the United States nor Canada has considered sacrificing all autonomy in external trade policy or, for that matter, the free movement of labor. Even so, the free trade agreement proposes liberalizing steps, as in certain service sectors, that the European Community is only now preparing to take.

It is true that the U.S.-Canadian negotiation ended with a number of exceptions having been allowed. The virtual blanket exemption for Canada's cultural industries has already been mentioned. Although a modest liberalization of bilateral trade in farm products is to be undertaken, the

parties elected to defer action on the complex of subsidies that is at the heart of the agricultural trade problem. But that problem is global and can only be addressed effectively in a multilateral negotiation, if anywhere.

Canada will give more liberal treatment than it has in the past to American wine and distilled spirits but not to American beer. The reason: the United States was unable to meet Canadian requests to open American markets to Canadian products containing sugar. American brewers thus will help to pay for the costly U.S. sugar price support program.

The U.S. embargo on exports of Alaskan oil will be breached to the extent of 50,000 barrels a day, conditional upon it being transported to Canada in U.S. ships. Elsewhere, the text notes that the Jones Act, which reserves all traffic along the U.S. coast to U.S. ships, remains inviolate under the free trade agreement.

Under the 1986 Softwood Lumber Memorandum of Understanding, the United States accepted a Canadian proposal to levy a 15 percent export tax on softwood lumber

linked to exports to the other party (a sore point for the American side) will be terminated. The tariff waivers that Canada grants to auto manufacturers under the 1965 auto pact and that underlie the so-called Canadian safeguards will be ended by 1996, sooner if schedules are negotiated with the companies concerned. In other respects the auto pact's coverage is essentially frozen for 10 years except that its North American content rule is to be tightened.

Alcoholic Beverages. Canada agrees to remove discriminatory practices with respect to listing, pricing, and distributing American wines and distilled spirits.

Intellectual Property. The chief point at issue under this heading had to do with Canada's requirement for the compulsory licensing of pharmaceutical patents. Parliament enacted a liberalizing statute in the course of the trade negotiations, which was then stalled in Canada's Senate. As a result, the only action to be registered in the agreement is Canada's promise to revise its laws to protect satellite retransmissions of copyrighted television programs.

Movement of Persons. Procedures will be established to allow easier border crossing for business travelers. Special arrangements will be made for frequent travelers and for those needing to stay in the other country for lengthy periods of time.

Safeguards. The agreement establishes a two-track escape clause, elaborating on GATT Article XIX. On the bilateral track, a party may opt for temporary relief from the agreement's tariff clause if imports of a product from the other party alone are causing serious injury. On the global track, a party invoking the GATT escape clause against injurious imports will exclude the other from its action unless imports from that party are contributing importantly to the injury.

Trade Remedy Laws. The compromise on this controversial subject is in several parts and has its novel aspects. First, it confirms that present antidumping and countervailing duty laws remain in force. Proposed changes in these laws, insofar as they apply to the other party, may require prior consultation before their enactment.

Second, it provides for ad hoc panels, binational in character. A panel may examine any changes made in pre-agreement antidumping or countervailing duty laws and may issue declaratory opinions as to their consistency with the relevant GATT codes and with the purposes of the free trade agreement. If the opinion recommends modifications of the changes, consultations must follow. If no remedial action is taken within nine months, the complaining party may either enact mirror legislation or terminate the entire agreement.

Third, a binational panel may be selected to review administrative orders under the trade remedy laws to determine whether they are in accord with the statutes, legislative history, regulations, administrative practice, and judicial precedents in the country issuing them. Decisions made in this unusual form of judicial review are to be binding on the parties.

Fourth, in apparent recognition that experience under the agreement might suggest the desirability of a harmonized set of laws in this field, the compromise arrangement is to continue for up to seven years, during which time a substitute system of laws is to be developed.

Institutions. A Canada-United States Trade Commission is to be created to supervise the agreement's implementation, to resolve disputes (presumably other than those involving antidumping and countervailing duties), and to oversee the further elaboration of the agreement. This body is to be intergovernmental, headed by the principal trade policy officials in Washington and Ottawa.

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in lieu of a countervailing tariff. This interesting method of settling a countervailing duty case against Canadian lumber is not to be impaired by the free trade agreement.

Measuring Gains and Losses

Nevertheless, measured by the range of matters that are included, the U.S.-Canadian agreement, if ratified, will set a new standard for free trade areas. Inevitably the ratification process will evoke questions about relative gains and losses, winners and losers. The debate is already well under way in Canada, where the opposition sees losses across the board — political, social, and economic — while supporters find nothing of the sort but rather foresee a boost to economic growth, personal incomes, and national well-being. In the United States the agreement will be judged mainly in terms of its expected economic consequences and secondarily in the context of political relations with a large and important neighbor.

A traditional way to assess the merits of a trade agreement has been to measure and compare the liberalizing "concessions" made by the parties. Time and statistical ingenuity typically have been devoted to weighing the value of reductions in tariffs and other trade restrictions in ways that demonstrate bargaining victories. Looked at in this perspective, the U.S.-Canadian agreement can appear to be heavily favorable to the United States.

Canadian tariffs on average are twice as high as American tariffs. The staging of reductions may mitigate the adjustment problem in Canada, but at the end of the transition, companies in Canada, again on average, will have lost more protection than businesses in the United States. In other respects U.S. objectives in the negotiation can be said to have been realized in greater measure than those of Canada. To view as concessions or losses the agreement's investment and services articles or Canada's decision to forgo export controls on energy fuels is more than a little ridiculous, but they are matters on which the American side was the *demandeur*. A key Canadian negotiating goal — security of access to the American market as measured by relief from the operation of U.S. trade remedy laws — was the subject of a somewhat ambiguous compromise, the effect of which remains to be tested.

The opposition in Canada will seize on these points to portray free trade as a prospective debacle. But it is also true that Canada, with much the smaller economy, will gain additional access to a huge market, the largest in the world. Companies now producing a diversity of products at low levels of output will have the opportunity — or be compelled by new competitive forces — to rationalize product lines and thereby gain the benefit of scale economies heretofore denied them. Canadian economists have built models that take account of these and related potential efficiency gains. The models, predictably, do not provide uniform estimates of the impact of free trade on national income. However, this work, together with other studies, tends to support the belief that Canada could realize a sizable long-term increase in real income from free and secure access to the American market.

Looked at in that perspective, potential gains for the United States are necessarily smaller. Free trade with Canada will allow some room for increased economies of

scale and greater specialization, but these will be limited by the size of the Canadian market — one-tenth that of the United States. Canada thus can be viewed as the clear winner in the free trade sweepstakes.

Realistically, none of this modeling can be more than indicative. Nor is it wholly relevant. The proposed free trade agreement is not confined to tariffs and identifiable nontariff trade barriers. Constraints on trade in services, for instance, are found primarily in regulations, not tariffs. The Canadians no doubt have put undue emphasis on getting relief from the American trade remedy laws. Yet if the agreement provides greater assurance against seemingly arbitrary application of countervailing or anti-dumping duties, investors' confidence presumably will be enhanced. Efficiency gains from easier business travel are not in the models, but they can be real all the same. If the parties carry the agreement forward in all good faith, the assumption must be that the two economies will be increasingly integrated. To believe that this interdependence will make one or the other or both of the nations poorer requires the parallel belief that a U.S.-Canadian border studded with obstacles to the movement of goods, services, and capital must contribute positively to national welfare in both countries.

Effect on Other Trading Partners

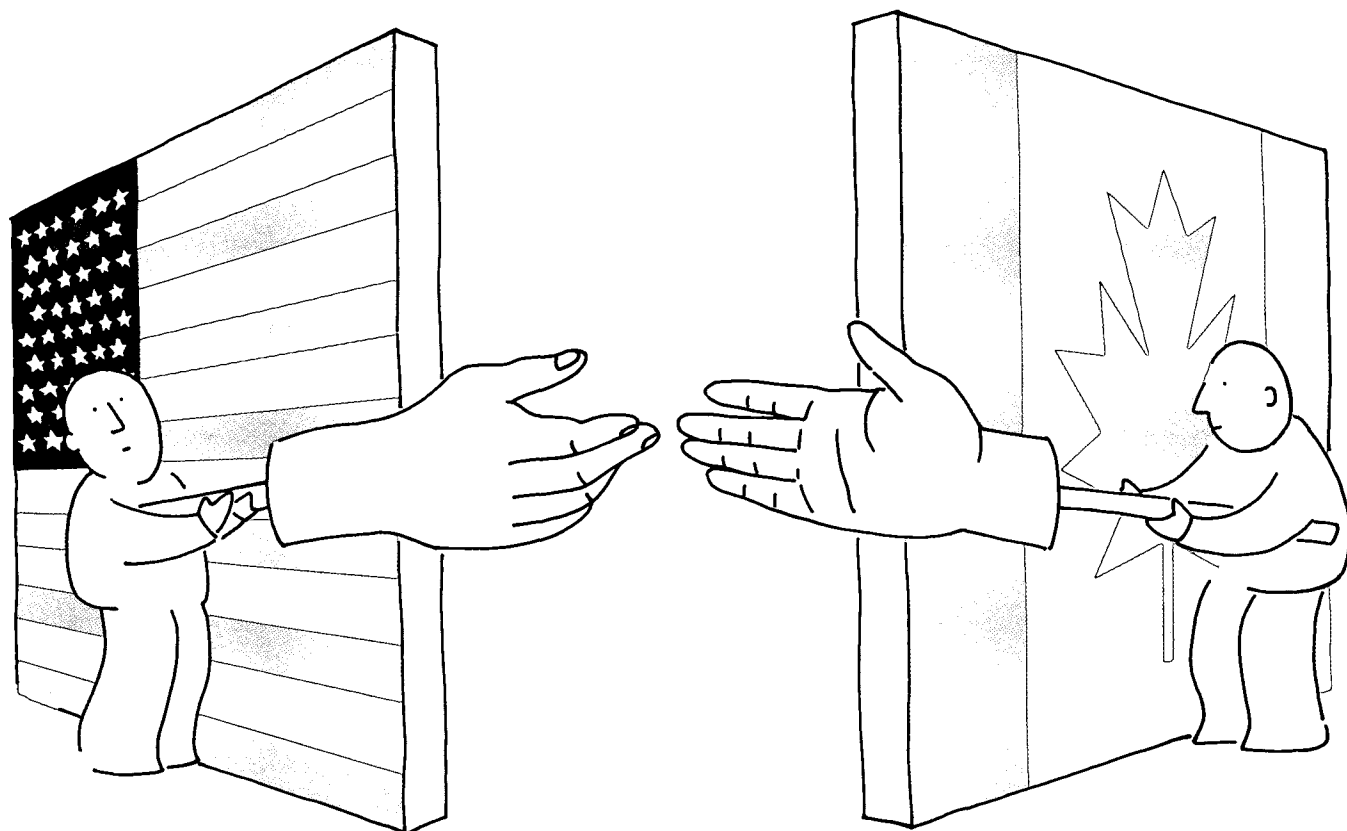
Canada and the United States trade very extensively with one another, until recently more so than any other pair of nations. Both also have commercial and economic relations with the rest of the world. Both are members of the GATT

and have been leading supporters of its principles, including its basic nondiscrimination clause. The free trade agreement will establish a preferential, non-MFN relationship under which third parties may be disadvantaged. For that matter, Canada and the United States will have agreed to forgo some of the advantages of being able to buy from the lowest-cost suppliers. That is, zero duties on Canadian goods will surely lead Americans to divert some purchases from countries still faced with American tariffs.

There is no strong reason for anticipating Canadian-U.S. free trade to do serious damage to the GATT as an institution. As has been said, the proposed agreement unquestionably will satisfy GATT legalities as an Article XXIV free trade area. Further, Canada and the United States will have broken new ground, as in the agreements on trade in services and foreign investment. The example should contribute to similar progress in the ongoing Uruguay Round of the GATT negotiations; if so, the GATT would be among the beneficiaries.

For Canadians and Americans the prospective gains from free trade and greater economic integration should outweigh potential losses from switching of purchases away from lower-cost suppliers. Canada especially should gain because a very large share of its imports (75 percent in the case of manufactured goods) already comes from the United States. Either country, of course, will be free to limit the extent of trade diversion by reducing its MFN tariffs.

The impact of bilateral free trade on third countries will be contained somewhat by the Article XXIV stipulation that the parties may not raise tariffs or other barriers above the levels prevailing prior to the formation of the free trade



area. But harm to the trade interests of outsiders cannot be avoided. A case in point is the clothing trade. Both Canada and the United States protect their clothing industries with high duties and quotas but do not apply the quotas to one another. With tariffs eliminated, bilateral trade in this sector could boom, at the expense mainly of exporters in developing countries who would continue to encounter tariff and quota restrictions in both markets. The textbook answer to this and like situations is to negotiate away all the trade barriers on a schedule no slower than that in the free trade agreement. Unfortunately, the textbook answer is not the most probable one.

Is Free Trade in Sight?

President Reagan and Prime Minister Mulroney set the stage for free trade talks at their meeting on March 17, 1985, now known as the Shamrock Summit. Reagan was four months past his overwhelming second-term victory. Mulroney's Conservative party had more than 200 seats in a Parliament of 282, the result of an even more impressive electoral win in 1984. The opposition Liberals two years earlier had themselves initiated discussions looking to closer trade relations with the United States. To be sure, no one could have thought that the much more ambitious venture undertaken by the Conservatives would be politically riskless in Canada. Nor could President Reagan and his advisers have expected total congressional acquiescence to free trade, even free trade with a country considered to be most like the United States. Still, the constellation of political signs in the spring of 1985 had to be seen as favorable to eventual success.

The next steps were taken on a leisurely schedule. Mulroney made his formal proposal to Reagan in September 1985. Congress was officially informed in December. Unexpectedly sharp opposition in the Senate Finance Committee was overcome in April 1986 only after a late-inning effort by the White House, and then by the slimmest of margins. The negotiations were formally opened in May 1986. Reagan subsequently lost his majority in the Senate, and Mulroney suffered a series of setbacks unrelated to free trade but certainly damaging to his position and that of his party as measured by the public opinion polls.

The negotiations themselves, and the context in which they were being conducted, inevitably identified issues on which potential opponents could focus. Was "everything" on the table, as the American side insisted had been agreed? For example, elements of Canada's extensive social security system might have been construed to provide subsidies to some industries. But few Canadians could agree that these programs should be subject to negotiation, whatever may have been meant by a comprehensive agenda. More pertinently, sentiment for excluding Canada's cultural sector proved to be an irresistible political force. But agreement on its exclusion seems not to have made the pact any more acceptable to Canadian nationalist opinion, which purports to see in the rest of the agreement a threat to Canada's very independence. Of lesser moment but similar in unyieldingness, American maritime interests were unwilling to accept as enough the initial agreement's specific exception for the provisions of the Jones Act. Because of the maritime industry's intransigence, all modes of transportation are excluded from the final text.

The Timetables

Proponents of free trade have some months in which to convert the unconverted or otherwise to assure the agreement's entry into force. In the United States, the timetable is somewhat inexactly written into statute. It is clear that the president must sign the agreement on January 2, 1988, that being the last day of "fast-track" authority under the 1979/1984 trade statutes. (Fast-track essentially means that the enabling legislation will not be open to amendment when it reaches the House and Senate floors.) Writing the enabling legislation is a delicate process, requiring close collaboration between executive branch and congressional staff lawyers. It, along with the text of the agreement, may be submitted to the House Ways and Means Committee, the Senate Finance Committee, and probably other committees as well no earlier than January 14, but the committees may elect to receive the documents at a later date convenient to them. Each committee then will have 45 legislative days for review, and this period may be extended by an additional 30 days.

After 45 or 75 legislative days — a period that will occupy an indeterminately longer number of calendar days — the enabling legislation must be reported to the floor for an up or down vote, to be taken within 15 legislative days. Since 1988 will be a short congressional year because of the national elections, timing of committee review will be important to completing action on the agreement before the end of the legislative year.

In Canada the federal government has unhindered

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authority to negotiate and conclude international agreements. Approval by the Cabinet satisfies the constitution. Implementing legislation does, of course, call for parliamentary action and will be necessary. In the present Parliament, with its large Conservative majority, approval would appear to be certain.

Provincial Politics

Concern has been expressed in the United States about the powers of the Canadian provincial governments. Ottawa says that 98 percent of the matters taken up in the agreement are within the federal jurisdiction. Of items that may or will require provincial implementing legislation, the chapter that would liberalize practices relating to wine and distilled spirits is cited as the most important. The content of this chapter is not new; a "statement of intentions" very much along its lines was made by the Canadian negotiating team during the Tokyo Round of the GATT negotiations and was followed by liberalizing actions in some of the provinces. Now a GATT panel has found that the remaining provincial rules contravene the General Agreement, a finding that could put the issue to rest.

As for the positions of the provinces in terms of reaching a national political consensus, the New Democratic party (NDP) government in Manitoba is reported to be definitely opposed to the free trade agreement. Prince Edward Island, New Brunswick, and Newfoundland are question marks, but so is their ability to affect the final decision. In Ontario, Prime Minister David Peterson, fresh from an election victory for his provincial Liberal party, has made known his dislike for the agreement, without committing himself and his government to a campaign against it. The other five

provinces, headed by Quebec and British Columbia, are clearly in favor of accepting the outcome of the negotiation.

All of this would be more impressive if the status of the Progressive Conservative party in the public opinion polls were more impressive. A poll released on October 27 put the Conservatives third with 24 percent, after the NDP, 38 percent, and Liberals, 35 percent. By constitutional provision, Canada must have a national election no later than September 1989. If long-standing customs were to be followed, the election would take place about a year earlier, presumably in September or October of 1988. By that time, if the government so decides, the free trade pact could have been officially approved.

Ed Broadbent, leader of the NDP, has declared his unequivocal opposition to the agreement and proposes to fight the election on the issue. John Turner of the Liberal party has said with nearly the same fervor that he would scrap the agreement on a return of the Liberals to power. So an election, in 1988 or in 1989, promises to present the 1911 choice again.

With the same result? No predictions are offered here. Free trade with America has been doing much better in the opinion polls than has the Conservative party. Roughly one-half of respondents are in favor of the pact, a percentage that holds broadly across the 10 provinces. Prime Minister Mulroney can choose the election date and within limits can frame the issues, free trade being one but not necessarily the only one. Quebec's Liberal prime minister is a strong supporter of the free trade agreement. Quebec sends 75 members to the Parliament. Ontario's Liberal prime minister is personally opposed, and Ontario has 95 seats in Ottawa. But Canadians warn outsiders that provincial politics tell little about what may happen on the national political scene.

A safer subject for prophecy may be the probable aftermath of another failure. If ratification loses in either country, the immediate reaction in the capitals surely will be to put Canadian-U.S. free trade aside as a proven loser. Assuming that the Uruguay Round of the GATT negotiations remains a viable prospect, American and Canadian trade officials could turn their full attention to these multilateral trade talks — although neither party could expect to achieve in that setting the same bilateral economic relations that had been promised by the free trade agreement. Focusing on the GATT talks would likely preclude any return to bilateral free trade talks until the mid-1990s at the earliest.

Possible developments thereafter are murky, of course. Nevertheless, the considerations that prompted a Canadian government to undertake its politically risky venture in 1985 are hardly transient. As in Western Europe, where the small EFTA nations all have opted for free trade with the European Community trading colossus, Canada cannot escape the attraction of the much larger economy on its border. If this free trade agreement fails, another Canadian government may well be moved to act on the belief, as expressed a few years ago by a Canadian journalist, that "the tide of events and the private aspirations of most Canadians" pull Canada toward "free association with the Americans." And if the past half century is a guide, an American administration will choose once again to respond affirmatively to the promise of closer economic integration with Canada.

The Case for a National Welfare Standard

*Paul E. Peterson
and Mark C. Rom*

PRESIDENT REAGAN has called for comprehensive reform of the nation's welfare system. "After hundreds of billions of dollars in poverty programs, the plight of the poor grows more painful. But the waste in dollars and cents pales before the most tragic loss — the sinful waste of human spirit and potential," he said in his 1986 State of the Union address. Reagan is not alone in calling for welfare reform; Senator Daniel Patrick Moynihan, the American Public Welfare Association, and a variety of other groups and public officials have questioned the adequacy of existing welfare policy.¹ Reformers agree that welfare policies need to foster a stronger sense of mutual responsibility between welfare recipients and the government, establish more effective education and work programs, and find new ways of sustaining strong families. But their proposals differ sharply on the allocation of responsibilities between federal and state governments.

The Reagan administration's analysis of welfare problems concludes that "our centralized welfare system contribute[s] significantly to the persistence of poverty in America." Because the administration believes that no one — least of all the federal government — knows the solutions to the nation's complicated poverty problem, it recommends "a program of widespread, long-term experiments in welfare policy through state-sponsored and community-based demonstration projects. Congress should seek . . . legislation that would waive federal welfare rules in order to allow states and communities to experiment."²

If the Reagan administration believes more decentralization is necessary, other reformers are not convinced. While agreeing that states need some flexibility, the National Governor's Association and the American Public Welfare Association (composed of the chief welfare administrator in each state) have called for clearer national standards, including "a new cash assistance program based on a national formula reflecting the actual cost of living within each state. A consistent percentage of each state's family living standard would be paid jointly by the federal and state government."³ Senator Daniel Evans, who served as co-chairman of the Committee on Federalism and National Purpose, gave the rationale for proposals of this type in October 1986: "National problems should be dealt with at the national level. . . . At the national level there ought to be a safety net for our citizens. . . . [We should] assume this fiscal responsibility at the federal level . . . [and] create broader, more uniform welfare support . . . [which] will eventually result in reducing the number of poor people."

These policy debates over federal versus state responsibility cannot be resolved without distinguishing between the two problems the welfare system needs to address. The first problem, and the one that dominates current discussions, is how best to lift people out of poverty and incorporate them into the self-supporting work force. The second problem, and the one presently

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ignored, is which level of government can best provide the poor adequate benefits until they are self-supporting. By focusing on this second question, we hope not only to draw attention to an issue that has been neglected in recent years but also to shed new light on ways in which welfare policies may adversely affect work opportunities.

One view has it that states should be able to set welfare benefits as they see fit. People who believe liberal benefits are desirable can reside in one state, while those who prefer fewer welfare services can live in another. With each state responsible for its own poor, it can set benefit levels to meet its community standards. Because every state has its own welfare needs and priorities, decisions about benefit levels should thus be made at this level without extensive federal interference.

These arguments have been criticized by other scholars who argue that in fact states are not able to set benefits at the level they truly prefer. Because states fear that high welfare benefits will attract poor people from other states, each state tends to lower its benefits to avoid such migration. The result is that states do not provide the amount of welfare they would otherwise choose and that welfare benefits are consequently depressed.

Much of the debate turns on two issues. The first has to do with the effects of different benefit levels on the distribution of poverty among the states. A welfare official recently told the *Houston Post* that "lean pickings in Texas prompt many people on public assistance to move to other states where the welfare payments are higher."⁴ Are statements like this correct? Do a significant number of low-income people decide to move from one state to another for welfare-related reasons?

The second question involves welfare benefit levels. Do state policymakers take into account the in-migration of low-income people when benefit levels are set? Recently a Wisconsin state senator from a town near the border of Illinois, a state that has significantly lower welfare benefits than Wisconsin's, called for a freeze in benefits, arguing that "Wisconsin's generous welfare benefits attract people from neighboring states."⁵ When the subject blossomed into a statewide issue, the governor appointed a commission to study the question. Although the commission concluded that the effects of migration were small, the legislature cut welfare benefits anyway. How typical is the Wisconsin experience? Do perceptions that poor people decide to live in states with higher benefits persuade policymakers that they should not raise welfare benefits? Or do they only provide a rationalization for those conservatives who want to keep benefits low?

To answer these questions we initiated a research project that sought to ascertain the extent to which welfare benefits and poverty rates influenced one another between 1970 and 1985. We report below some of our preliminary findings. But to understand these findings we first need to describe the origins and development of the variation in state welfare policies.

Origins of Federal Welfare Assistance

The federal government's major cash assistance program, aid to dependent children (ADC), was originally established in 1935 as a short-term program. It was designed to supplement state and local general assistance programs

that had been a meager source of support to impoverished families prior to the New Deal. The program was expected to assist dependent children under the age of 16 who had lost their fathers' support as the result of death or disability. It was anticipated that the program would gradually disappear as worker contributions to the Social Security program made them eligible for death and disability insurance.

Because ADC was a short-term program intended to supplement state general assistance programs, its exact design and implementation were left to each individual state. Benefits were very low, eligibility was restricted, and the federal government funded one-third of the total cost. In 1938 fewer than one million children received aid, and the death of a father was the primary reason given for establishing a child's eligibility. As can be seen in figure 1, the prewar cost of ADC in 1985 dollars was little more than \$1 billion. (All costs in this article are calculated in constant 1985 dollars.)

Expansion of the Welfare Program

The program was destined to expand in the ensuing decades, albeit without much premeditation on the part of policymakers. By 1960 more than three million children were receiving assistance, and the program cost more than \$3.5 billion dollars (see figure 1). Sixty-seven percent of the recipients needed assistance because a parent was absent due to divorce, separation, or imprisonment or because the parents had not ever been married. Death of a parent now accounted for only 8 percent of the recipients. The average state's monthly payment had increased from \$231 in 1940 and \$314 in 1950 to \$413 in 1960 (see figure 2). The federal share of the cost had increased from 33 percent to 60 percent (see figure 3).

By this time welfare recipients were no longer regarded as temporarily poor for accidental reasons but as a more or less permanent social group mired in poverty. Even though liberals and conservatives argued over the causes of poverty, they agreed that the ADC system could no longer be considered as purely transitory. Only changes in public policy that addressed the causes of poverty, not just its symptoms, could reduce the welfare assistance loads.

Presidents Kennedy and Johnson called for modifications in the welfare system that conformed to the more liberal understanding of the causes of poverty and welfare dependence. In addition to changing the name of the program to Aid to Families with Dependent Children (AFDC), in recognition of a substantive change that permitted assistance to two-parent families, Congress encouraged an increase in the number and range of social services states offered by raising from 50 percent to 75 percent the portion of the cost that the federal government would pay. Congress also established the Medicaid program, which provided free medical services to the poverty population, and inaugurated the food stamp program.

Efforts to Standardize Policies

Congress also began to limit to some extent the choices available to states. For example, it required some AFDC recipients to make themselves available for work or training. To further facilitate the transition from welfare to

Figure 1: Total Number of AFDC Recipients and Welfare Program Costs, 1940–85

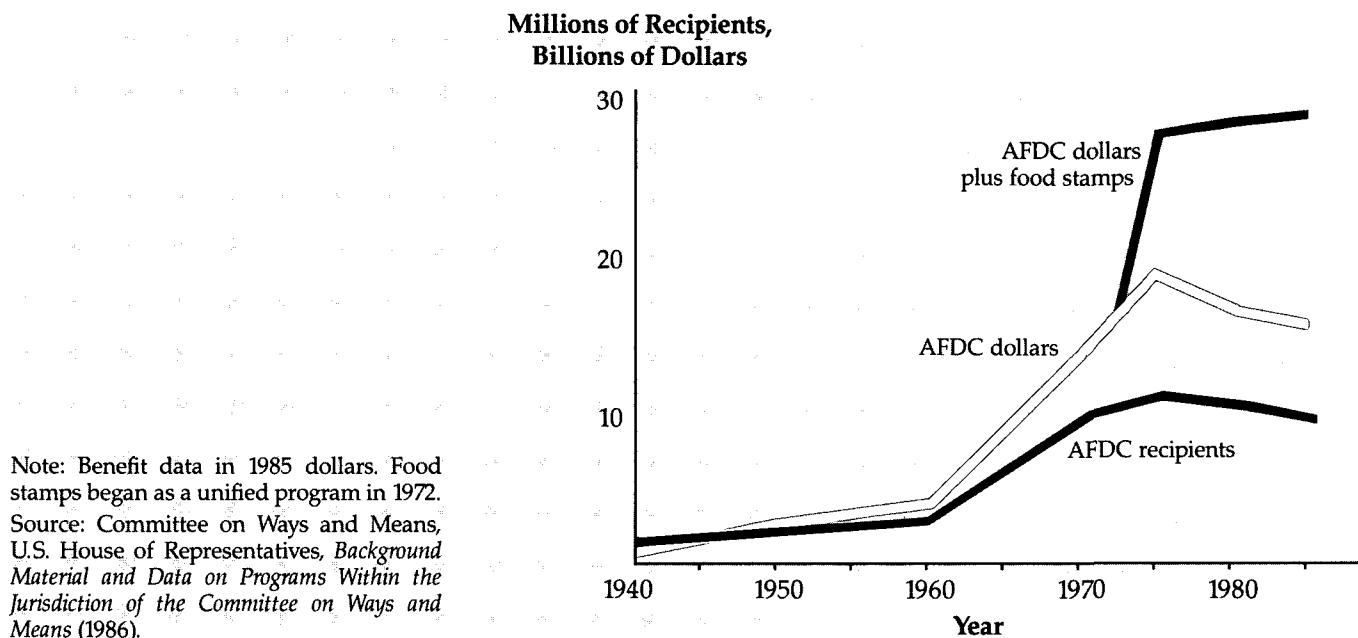
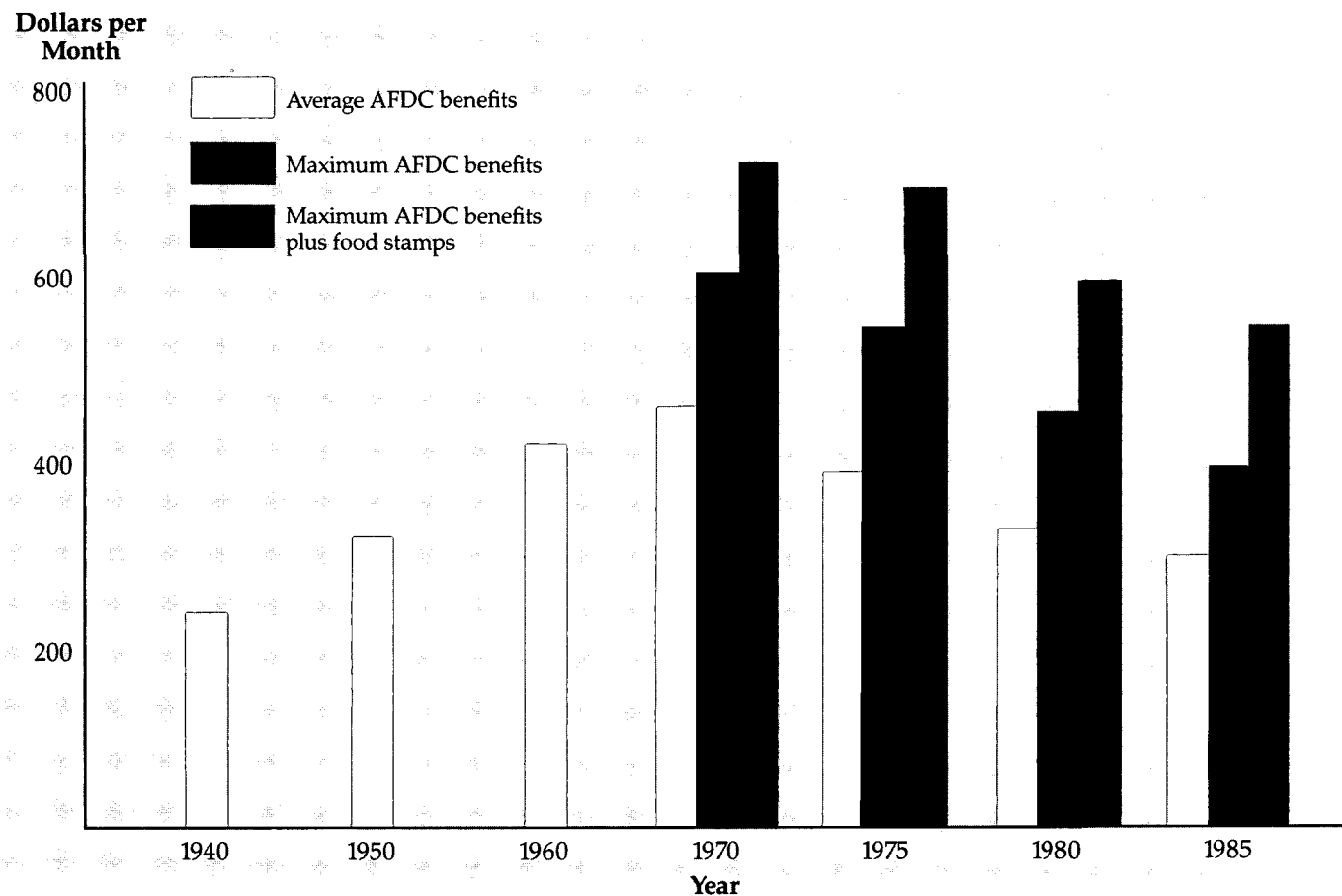


Figure 2: Rise and Fall: Welfare Benefits Since 1940



Note: Maximum benefits are for a family of four. Data in 1985 dollars.

Source: Committee on Ways and Means, *Background Material*; Department of Commerce, *Statistical Abstract of the United States 1975*.

work, Congress enacted a law in 1967 that required states to disregard the initial \$30 a month and one-third of the remaining income a recipient earned in calculating the amount that an eligible family should receive. It was argued that since a recipient lost one dollar in welfare for every dollar earned, recipients chose not to work in order to keep their welfare benefits. This policy change was supposed to allow recipients to escape from the poverty "trap" that welfare created.

The most ambitious effort to standardize welfare benefits was proposed by President Nixon upon the recommendation of his domestic policy adviser Daniel Patrick Moynihan. Proclaiming in 1969 that "America's welfare system is a failure that grows worse every day," Nixon proposed a guaranteed national minimum payment that would raise benefit levels in 10 states and for approximately 20 percent of the recipients. This family assistance plan was defeated in the Senate, however, by a coalition of conservatives, who opposed raising benefits in states where they were low, and liberals, who were concerned that a national minimum would induce high-benefit states to let their benefits fall. President Carter also proposed a minimum welfare standard that would have increased benefits to 65 percent of the poverty level and would have raised the federal fiscal contribution to the program. His proposals were approved in amended form in the House but, once again, movement toward a national standard was defeated in the Senate.

Welfare policy became decidedly more conservative after Reagan assumed office. In 1981 Congress tightened eligibility requirements by curtailing the amount that a worker could earn and still receive welfare benefits. All income earned after the first four months on welfare (except an amount set aside for child care and transportation expenses) had to be counted in determining the size of the welfare benefit. In 1984 Congress allowed a disregard of an additional \$30 a month of earnings but only for the first year the recipient was on welfare.

Interstate Variation

Even though more federal regulation has accompanied the awareness that welfare assistance is now a permanent program, the states still exercise wide discretion over the way in which the funds are spent. States decide whether to give aid only to one-parent or also to two-parent families. Half of the states have decided to adopt the two-parent policy, while the other half have kept the traditional one-parent restriction. States also determine questions such as the amount of assets a recipient can retain and still remain eligible for benefits, the number of days that can elapse between the time an application for aid is made and a decision is reached, and the age at which a child is no longer eligible for benefits. By 1985 there were at least 32 significant regulations affecting welfare eligibility that varied from state to state. In general, it was easier to gain access to the welfare rolls of the states with more generous benefit levels.⁶

Each state currently determines benefit levels by first calculating the standard amount the state believes a family needs to meet reasonable food, clothing, and shelter requirements. Any family whose income is below the needs standard and is otherwise eligible can receive assistance.

The state then decides the maximum amount it will give eligible families by determining what percentage of the needs standard it will supply. The actual grant is the difference between this maximum amount and the amount of income the family earns, disregarding a certain amount for child care costs, transportation costs, and, for a limited period of time, a portion of the income the recipient has earned.

Because states have established widely varying needs standards and because they provide different percentages of the needs standards, welfare benefits differ substantially from one state to the next. Indeed, the variation is quite extraordinary. California, the most generous state (outside of Alaska, whose distinctive, high-cost economy makes it an inappropriate point of comparison), provided welfare recipients in 1985 with as much as five times as large a welfare stipend as did Mississippi, the least generous state. The maximum welfare benefit paid to a California family of four was \$698 a month, compared with \$144 paid to a similar family in Mississippi.

These policy differences among the states are not just the peculiarities of one or two states, nor are they gradually disappearing as state governments gain in professional responsibility and fiscal capacity. Instead benefit levels varied by as much in 1985 as they did in 1940.⁷ In 1985 the

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five most generous states paid an average of about \$350 more each month for a family of four than the five least generous states.

Significantly, this variability in benefit levels has continued even though the value of welfare benefits in real dollars has been declining since 1970. After rising steadily throughout the early postwar period, both maximum and average benefit levels in constant dollars have fallen steadily so that benefit levels in the typical state are today only two-thirds of what they were in 1970 and are, in fact, below the level they reached in 1950 (see figure 2).

The food stamp program, which is funded entirely by the federal government, has eased both the decline in welfare benefits and the degree of interstate variation. If a dollar in food stamp coupons is considered to be worth as much to a welfare recipient as a dollar in cash benefits, then total welfare benefits today are at about the same level they were in 1960 before the food stamp program was established.⁸ In fact, it might be argued that food stamps, originally thought to be an addition to cash benefits, have become a substitute instead. As federal contributions in food stamps have increased, cash benefit levels set by states have fallen by a corresponding amount.

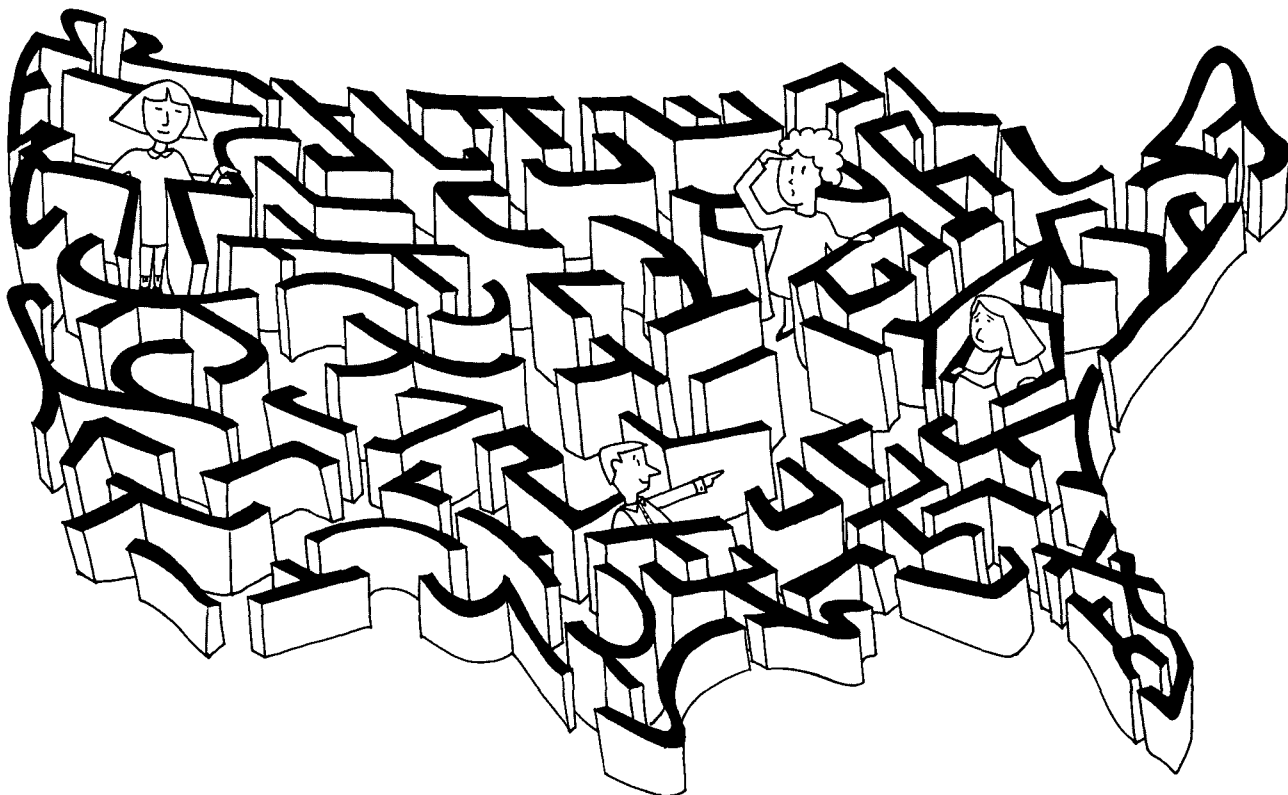
The establishment of the food stamp program has also reduced the interstate variation in total cash and food benefits by roughly one-half, compared with the variation in cash benefits alone. This leveling occurs because the federally funded and regulated food stamp program gives higher food stamp benefits to recipients in states where cash benefits are lower. However, combined food stamp and cash benefits in the most generous state still remain more than double the benefits in the least generous state; the highest combined benefits for a family of four are \$757 a month, the lowest, \$369.

Benefit Levels and Poverty Rates

We began the second part of our research with the hypothesis that benefit levels and state poverty rates were interrelated. We expected the poor to move in response to benefit levels, and policymakers to lower benefit levels as poverty levels increased. If the data confirmed the hypothesis, then a vicious circle may bedevil the welfare system. If a state raises its benefits, then the size of its poverty population increases. As poverty rates increase, benefits are cut. The long-term effect may be to lower benefit levels below the point the state otherwise would think is the appropriate amount of assistance. To see whether this vicious cycle exists, we first looked at the effects of benefit levels on migration and then looked at the other side of the coin, the effects of poverty rates on benefit levels.

The Effects on Poverty Levels

The first wave of studies examining the effects of welfare on interstate migration was undertaken during the debate over Nixon's proposal for a national benefit standard. Although most of the studies concluded that interstate migration was not influenced by differences in state welfare policies, the data for these studies were collected in the 1950s and 1960s, when many states did not pay welfare benefits to newcomers until they had met a 12-month residency requirement.⁹ Then, in 1969, the Supreme Court (in *Shapiro v. Thompson*) ruled that states could not constitutionally deny benefits to new residents. From then on, states had to make welfare benefits available as expeditiously as applications could be processed. It is thus possible that differences in state welfare benefits may have had a more substantial effect on residential choice



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after 1970 than they did previously.

Two important studies using data collected since 1970 have recently been reported, and both discovered that welfare recipients were more likely to live in states that had higher welfare benefits than in states with lower benefits. If our research confirms these results, it raises anew a question thought to have been resolved in the debate over the Nixon family assistance plan.

Our study obtained information on changes in poverty rates in each of the 48 states of the continental United States plus the District of Columbia for three five-year periods, 1970–75, 1975–80, and 1980–85. We sought to test the hypothesis that welfare benefits affected the location of the poor by examining the effect benefit levels had on poverty rates. Where benefits were high and increasing, did poverty rates increase? To answer this question, we controlled for a number of other variables that could influence poverty rates, such as state economic growth as measured by changes in per capita income, employment rates, and wages. When we included all these factors in a regression analysis, we found a stable, significant effect of benefit levels on poverty rates. The more a state did for its poor, the higher the percentage of poor people in the state over a five-year period.

The effects of benefit levels were not large in any one year, but over time they were significant. A state offering benefits 1 percent higher than elsewhere could expect its poverty rates to increase by 0.17 percent over five years. All else being equal, a state guaranteeing a four-person family \$250 a month more than another state could expect that in five years its poverty rate would rise 6.8 percent more than the rate in the low-benefit state.¹⁰ Over a 15-year period these effects are quite noticeable. If two states were exactly alike in all other relevant respects and both had the national average 13.5 percent poverty rate at the beginning of the period, the high-benefit state could expect its poverty rate to rise to 16.2 percent (while poverty in the lower-benefit state remained unchanged). For the average-size state, this rate difference could mean an increase of 135,000 in the size of its low-income population.

We do not want to exaggerate these effects. Compared

with broader economic forces that directly impinge on a state's economy, welfare benefits have only a modest effect. The best way to reduce poverty within a state — as well as within a nation — is to sustain a strong economy.

The Effects on Benefit Levels

But even though the effects of benefit levels are modest, they are one of the few factors affecting poverty rates that policymakers directly control. If high benefits increase poverty rates to some extent, then state policymakers can be expected to cut benefits when faced with high and rising poverty rates.

We tested this possibility by examining the effects of poverty rates on benefit levels.¹¹ In this analysis we took into account the fact that a state's welfare benefits are also determined by the state's overall economic well-being, its willingness to impose higher tax rates, and political factors such as the degree to which state politics are competitive and citizens vote in state elections. As might be expected, welfare benefits were higher in wealthier, more politically competitive, and more heavily taxed states.

Controlling for these factors, we found that benefits were cut more deeply whenever the poverty rate in the state was high and growing. For every 1 percent difference in poverty levels, cash and food stamp benefits fell by 0.08 percent. In other words, a state with a poverty rate 10 percent higher than another state reduced its benefits by 4 percent more over a five-year period and by 12 percent more over a 15-year period in comparison with that other state. This means that in a state where poverty rates were comparatively high, annual benefits for a family of four were reduced over a 15-year period by about \$900.

Were it not for the federally funded food stamp program, the cuts would have been much greater. For every 1 percent increase in poverty levels, cash benefits fell by 0.18 percent. A high-poverty state reduced its annual cash benefits by 22 percent, or about \$1,300, for a four-person family over a 15-year period. The even stronger effects of poverty on cash benefits than on combined food stamp and cash benefits is due to the greater control state policymakers have over cash benefits.

Policymakers also tend to cut benefits when they discover those benefits have reached high levels relative to other states. For every 1 percent higher a state's welfare benefits are relative to other states, they decline by 0.38 percent over the next five years. In other words, a high-benefit state would cut its benefits by 14 percent in five years or by no less than 42 percent over 15 years.

Policy Recommendations

These findings suggest that low-income people take welfare policies into account when choosing where to live and that policymakers recognize this when setting welfare benefits. Given these facts, a strong case can be made that welfare should be a national responsibility. Decisions concerning eligibility and benefit levels should be uniform throughout the United States in the same way Social Security benefits are. Just as the elderly can choose a place to retire without worrying about the effect of their choice on the size of their pension, so low-income people should be able to select the state they want to reside in without concern for the effects that decision may have on the amount of welfare assistance they receive. Standardizing welfare benefits thus reduces unnecessary government intrusiveness into a critical area of private life — the choice of where to live.

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A powerful case for a national standard can be made on these normative grounds alone. But social and economic considerations offer additional reasons for establishing a national standard. For one thing, a national standard would enable poor people to make decisions about their place of residence in ways that can best sustain their family relationships or enhance their job opportunities. Under current arrangements poor people may have to accept welfare cuts to explore job possibilities in other states or to reunite themselves with members of their family in other parts of the country. It may be that many poor people accept this cost and move in any case. But for the welfare system to provide disincentives to job searches and family unification hardly seems consistent with a primary welfare goal of better incorporating the poor into society.

Leaving welfare policy to the states also places considerable downward pressure on welfare benefit levels. States that compete with one another for business activity and productive citizens cannot afford to set welfare benefits without considering the effect their decisions may have on the social mix of their population. As each state cuts its benefits in response to these pressures, the overall level of assistance to the most needy citizens can decline significantly. Since 1970 benefits have fallen by more than 30 percent. All of these cuts in benefits have taken place as a result of decisions made at the state level; they cannot be attributed in any direct way to Reagan conservatism or national deficits. Indeed, even as state cash assistance has fallen dramatically, the food stamp program in Washington has continued to be sustained at a level very close to the one reached in 1975. Keeping a state-determined welfare policy is almost necessarily a policy of maintaining low levels of cash assistance.

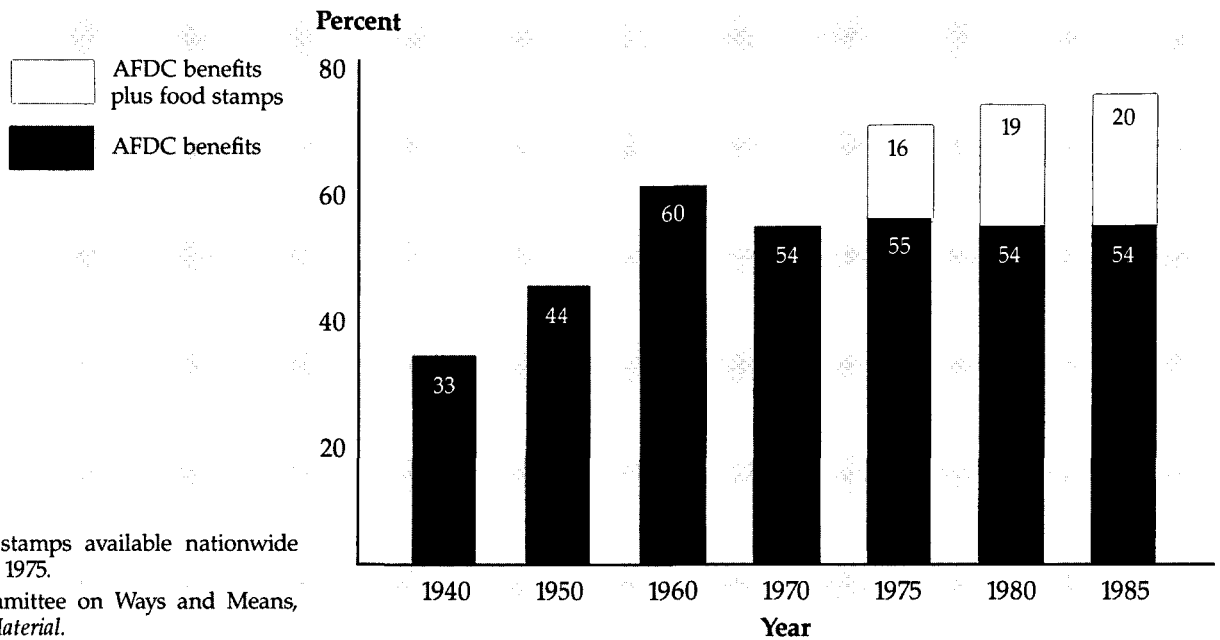
If the case for national standards is substantively compelling, it is nonetheless apparent that the goal cannot be achieved overnight. Political realities and fiscal pressures preclude dramatic alterations in a system that has changed only slowly over the past 50 years. Presidents Nixon and Carter both discovered that efforts to create a national welfare minimum provoked opposition from conservatives who opposed any increase in welfare benefits, low-benefit states who objected to the increased state costs associated with higher benefit levels, budget-watchers concerned about the impact of increased welfare costs on fiscal deficits, and liberals opposed to any national minimum that might encourage high-benefit states to lower their support levels.

Although we cannot propose a solution that meets all these objections, we can show that the costs of moving toward a national standard are considerably less than is conventionally believed. A policy that moves in steps toward a reasonable national minimum need not be the budget-buster skeptics might have expected.

Our first point in this regard is addressed to those liberals who say that national minimum standards such as those proposed in Nixon's family assistance plan would encourage high-benefit states to let their benefit levels fall. The Nixon plan was never adopted, but benefits fell anyhow — by as much as 42 percent in the high-benefit states. The absence of a national minimum has its own depressing effect on welfare benefits.

Our second point is addressed to those calling for a reduction in fiscal deficits. The current federal deficit can in

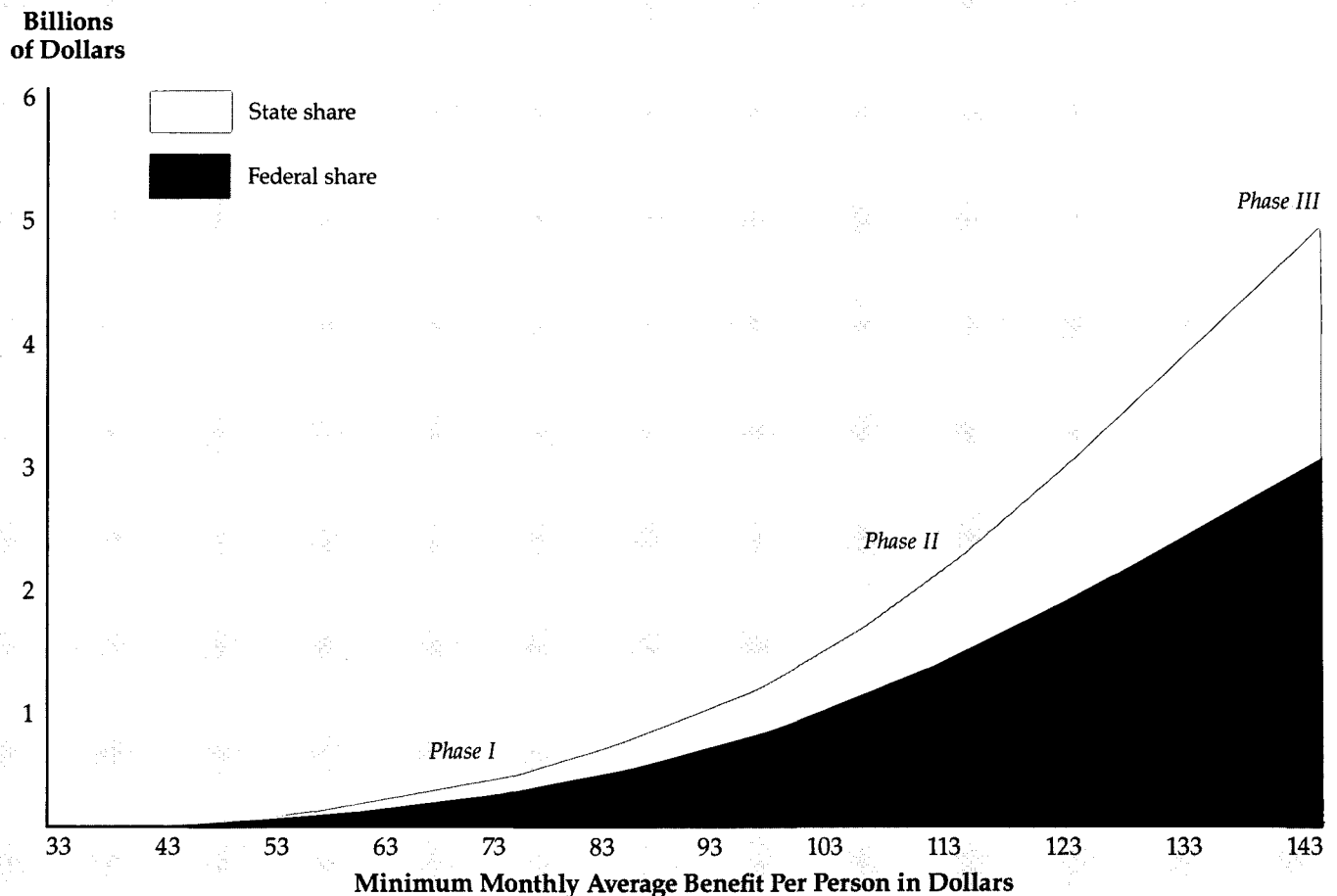
Figure 3: Federal Share of Welfare Payment Costs, 1940–85



Note: Food stamps available nationwide beginning in 1975.

Source: Committee on Ways and Means, *Background Material*.

Figure 4: Federal-State Share of Estimated AFDC Costs for Raising Benefits One State at a Time



Source: Authors' calculations, using the current funding formula. In 1985, \$33 per person was the minimum AFDC benefit paid by any state.

no way be blamed on soaring welfare costs. In fact, the cost of cash assistance (in real dollar terms) has actually declined since 1975. The number of recipients has remained about the same, and the payments per recipient have dropped sharply (see figures 1–3).

Third, a program that brought all states up to the national average could be established for a cost to the federal government of around \$1.4 billion a year, a not insignificant sum but one that is fiscally manageable if the political will is present.¹² Figure 4 sets forth the cost of simply requiring each state below a certain minimum to raise its benefits to that level. The \$1.4 billion figure assumes that the current formula for allocating costs between the states and the federal government is followed and that benefits are raised to the 1985 average benefit of \$113 a person each month. One could raise the national minimum to \$143 a month, or 75 percent of the current national maximum, for \$2.9 billion.

Opposition to this approach could be anticipated from senators and representatives from low-benefit states who may object to the increased state cost of raising benefit levels. If the federal government absorbed half of these increased state costs, the total cost to the federal government of transforming the national average into a national minimum would be around \$1.8 billion.

The cost of any of these changes can be further modified by introducing them on a step-by-step basis over a three-year period (see figure 4). In this way a principle can be established while initial federal outlays are kept to less than half a billion dollars.

The changes we have proposed are not so much a restructuring of federal welfare policies as a recognition of the lessons of the past 50 years. In the beginning, aid to dependent children was expected to be a supplemental program that would be phased out as other provisions of the Social Security Act took effect. Its design, financing, and administration were left primarily to the states.

Gradually, the permanent character of the welfare system became apparent to national policymakers, and just

as gradually, national policymakers have attempted to create a set of national policies. Federal regulation of state procedures has steadily expanded, and the federal share of the costs, including food stamps, has grown from 38 percent to 78 percent. The disparities that remain are anomalies inherited from an earlier era in which states were less beset by national markets, worker mobility, interstate competition, and Supreme Court requirements for equal access. A national standard for a national economy makes as much sense for welfare provisions as it does for retirement insurance. As welfare reformers explore ways to lift welfare recipients out of poverty, they need to consider the case for a national welfare standard.

1. See Robert D. Reischauer, "Welfare Reform: Will Consensus Be Enough?" *The Brookings Review* (Summer 1987), pp. 3–8, for a list of the groups that have written reports proposing reforms.

2. *Up From Dependency: A New National Public Assistance Strategy*, Report to the President by the Domestic Policy Council, Low Income Opportunity Working Group, December 1986, p. 3.

3. *The New York Times*, February 18, 1987. See also National Governors' Association, "Policy Position on Welfare Prevention," February 24, 1987.

4. Brenda Sapino, "Official Says Welfare Benefits Discourage Relocation to Texas," *Houston Post*, February 22, 1987.

5. *The Capitol Times*, Madison, Wis., May 10, 1985, p. 10.

6. We scored each state on an index that ranged from zero to 100, with zero being a state with consistently restrictive policies and 100 a state with consistently permissive ones. The score of the average state in 1985 was 47, with the most restrictive state scoring 28 and the most permissive one scoring 75. In 1985 the eligibility permissiveness index had a 0.67 correlation with benefit levels.

7. One measure of this, the coefficient of variation (standard deviation divided by the mean), does not change much between 1940 and 1985.

8. Data limitations make direct comparisons impossible. However, the recipients in the average three-person family receiving the cash benefit of the average state (\$292) were entitled to \$415 in combined food stamp and cash benefits in 1985, compared with an average state's median cash payment of \$413 in 1960.

9. For a detailed review of these and more recent studies, see Paul E. Peterson and Mark C. Rom, "Federalism and Welfare Reform: The Determinants of Interstate Differences in Poverty Rates and Benefit Levels," *Governmental Studies Discussion Paper No. 14* (Brookings Institution, 1987).

10. We define a high-benefit state as one offering benefits one standard deviation above the average, and a low-benefit state as one standard deviation below the average. Similarly, a high-poverty state has a poverty rate one standard deviation above the mean, while a state with a low poverty rate has a rate one standard deviation below the average.

11. The analysis consisted of a set of simultaneous equations that controlled for the mutual effects of poverty rates and benefit levels on each other. Results were similar for both recursive and simultaneous equations and when the data was included in both logged and unlogged form. The results reported here are from the logged, simultaneous equations reported in Peterson and Rom, "Federalism and Welfare Reform."

12. We considered two factors in estimating these costs. Raising benefit levels increases the amount spent on current recipients, and it will incur additional costs because it will provide an additional incentive to join the welfare rolls. Again, contrary to popular belief, the latter expense will not be great. We generously estimated that a \$100 a month rise in benefits would increase the number of recipients by 10 percent, a number larger than our model produces, but one in line with other research. We used 1985 data on welfare rolls, benefit levels, and funding formulas to make these calculations.

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The Permanent Minority Party in American Politics

Thomas E. Mann

IF GEORGE BUSH or Bob Dole or some other Republican candidate succeeds next November in keeping the White House in GOP hands for the fifth time in six presidential elections, he will lead a divided government. Republicans retain some hope of recapturing the Senate, scene of the most sweeping and consequential election results of the Reagan era, although they face a decidedly uphill battle. But not even a glimmer of uncertainty is present in the upcoming elections to the House of Representatives. The Democrats will win control of the House for the 18th consecutive time, perpetuating a majority status that with the exception of two Congresses (1947–48 and 1953–54) extends all the way back to 1930.

This split-level structure of government has become the norm rather than the exception. It is a norm with well-known costs. Presidents find it increasingly difficult “to form a government” that can translate shifts in popular sentiment into public policy. Indeed a number of changes in the electoral system over the last several decades — the decline of seat swings in Congress, the increase in split-ticket voting, and the localization of political forces in House elections — all tend to push the president and Congress in separate directions and dilute the impact in Washington of whatever national message the voters may have in mind.

One-party dominance of a legislative body also entails structural maladies that affect both Democrats and Republicans. Large, stable majorities tend to become divided and complacent; they take for granted the rewards of majority status and lose sight of the importance of the party’s collective performance. They are also prone to treat the minority cavalierly on such matters as floor procedures and party ratios on committees, since the very permanence of their majority eliminates any fear of reprisal. Longtime minority parties, on the other hand, can easily become demoralized and irresponsible, neither offering policy alternatives for voter consumption nor playing a constructive role in the legislative process. The intense, bitter partisanship so evident in the House today is a legacy of this one-party dominance.

Why have the Republicans become the permanent minority party in the House? Is there any realistic prospect for a revival of GOP fortunes during the rest of this century?

Ask any Republican strategist that first question, and two factors are almost certain to be at the top of the list: the advantage of incumbency and gerrymandering. Democrats have solidified their control of the House, the argument goes, by drastically increasing the resources (staff, travel funds, official mail, radio and television) available to incumbents and by redrawing district lines to dilute Republican strength at the polls. In other words, the Democrats have rigged the process to perpetuate their majority even when political conditions are ripe for a GOP takeover.

Thomas E. Mann is the director of the Brookings Governmental Studies program and former executive director of the American Political Science Association. This article is drawn from “Is the House of Representatives Unresponsive to Political Change?” in A. James Reichley (ed.), *Elections American Style*.

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While there is an element of truth to both charges, their importance is exaggerated. Any explanation of the permanent House minority that relies exclusively on these factors is woefully inadequate, and any strategy to boost GOP fortunes in the House based on this analysis is doomed to failure.

Advantages of Incumbency

Incumbents have long fared well in House elections. The uneven distribution of partisan voters across congressional districts has produced many safe seats insulating incumbents from challenges by the opposition party and from voter reactions to adverse national conditions. Nonetheless, for most of this century enough districts fell into the marginal or competitive range, with voters evenly divided between the two parties, that a substantial shift in public sentiment could unseat incumbents and significantly alter party strength in the House. It was not uncommon in the first half of this century for a party to lose well over 50 seats in an election, largely at the expense of its incumbents.

The volatility of seat swings diminished shortly after the Second World War — the 75-seat pickup by the Democrats in 1948 was the last time a party gained as many as 50 seats in a single election. After the 1954 midterm election, the Democrats settled into their majority position, which since 1958 has been unassailable. At about this time, the number of districts supporting a presidential candidate of one party and a House candidate of the other jumped sharply, subsequently reaching a point at which a third or more regularly produced split results.

Wider Margins . . .

Another alteration in the structure of competition in House elections first appeared in the 1960s. Incumbent candidates began winning a larger share of the vote, leaving fewer of them in the marginal range and presumably making them less vulnerable to adverse national tides in subsequent elections. The increased value of incumbency appeared in a number of forms. The average vote won by House incumbents grew from roughly 60 percent in the 1950s to 65 percent in the 1970s. The percentage of House incumbents reelected with at least 60 percent of the major-party vote jumped from 60 percent to 75 percent during the same period (reaching a record-setting 85 percent in 1986). Freshman representatives running for reelection noticeably improved their performance after the mid-1960s. Changes in both this "sophomore surge" and the complementary measure that records the drop in support for the nominee of the incumbent's party when the incumbent retires ("retirement slump") confirmed that the value of incumbency increased by roughly five percentage points from the 1950s to the 1970s.

This growth in the advantage of incumbency was related entirely to the individual House member, independent of and in addition to whatever benefit accrued to the incumbent by virtue of his party's strength in the district. It was facilitated by a decline in partisanship among voters during this period: the proportion of voters who defected from their own party in House elections doubled, and incumbents won the overwhelming support of those who stayed. Incumbents succeeded largely by utilizing the

increased resources at their disposal to cultivate their districts. They were able to enhance their personal reputations by advertising widely their concerns, positions, and accomplishments and by providing nonpartisan service for the increasing number of constituents who had business of one sort or another with the federal government.

These efforts did more than increase the attractiveness of incumbents to voters. They also contributed to an aura of invincibility that discouraged serious challengers. In an era of candidate-centered elections, when voters make their decisions largely on the basis of the relative attractiveness of the contenders, the surest route to victory is to run against a weak opponent. The vast majority of House contests fit this description: the election is effectively over before the formal campaign begins. Of course, weak challengers were not unknown in the earlier, more partisan period, particularly in districts that were clearly safe for one party. But now incumbents representing more evenly divided districts often succeed in scaring away the strongest potential challengers. And as the costs of campaigning for a House seat escalate, incumbents are better positioned than challengers to raise the necessary funds. Relatively few nonincumbents, even the most experienced politicians, are able to acquire the substantial resources needed to run a competitive race.

... But No More Safety

The increased advantage of incumbency in House elections after the mid-1960s is clear; its consequences are less obvious. Wider margins of victory should mean fewer incumbent defeats and smaller swing ratios — the rate at which changes in the national vote in House elections are converted into seat changes. But, as Gary Jacobson has argued, these expectations have not been fully realized. The percentage of incumbents defeated in the general (and primary) election remained relatively constant over the last three decades, and the swing ratio declined only slightly.

Why did wider margins of victory not produce fewer losses? The answer is that House incumbents are now subject to wide changes in support from one election to the next. As elections have become less party-oriented and more candidate-centered, the national partisan vote swing has become a much poorer predictor of change within individual congressional districts. The source of change is found increasingly in the local district — in the quality of the challenger, public perceptions of the incumbent, and the dynamics of the campaign. As long as incumbents keep their reputation among constituents intact and discourage the strongest potential opponent from running against them, they are safe. But if feelings toward them sour and effective opposition is mobilized, incumbents' level of support can be sharply reduced.

Incumbency is a resource to be exploited more or less successfully, not an automatic advantage. Weaker party attachments among voters give an incumbent opportunities to build his advantage, but those same weak attachments also mean that a well-financed and electable opponent can cut deeply into the incumbent's party base. Consequently, incumbents feel under increased pressure to build and maintain political support in their districts and to avoid mistakes that might galvanize the opposition.

In sum, the nature of the incumbency advantage in

House elections has changed since the mid-1960s, but its value in staving off defeat has not significantly increased. Modern publicity-conscious, service-oriented members have used their "million-dollar" offices to strengthen their position back home, but the combination of adverse national conditions and vigorous local challenges can still be fatal for 10 percent or more of a party's House members. The threat is sufficient to keep incumbents concerned about their political future and responsive to the voters who send them to Washington.

This argument may not convince those more impressed by the failure of the Republicans to pick up a sizable bloc of House seats in the 1984 presidential landslide and by the remarkable durability of House incumbents in 1986. A continuation of the 1984–86 pattern in the next two or three elections would remove some of the uncertainty incumbents feel and raise important questions about the case that I have made. But my major point is likely to remain valid: the increases in the advantage of incumbency that are associated with the explosion of official resources and opportunities for publicity and service have made members of the House neither electorally secure nor independent of their constituencies.

Still, the larger changes in the structure of American elections that emerged in the 1950s have almost certainly worked to the disadvantage of Republicans. The divergence of presidential and congressional electoral coalitions (reflected at the individual level by split-ticket voting and at the district level by the absence of presidential coattails) has insulated House elections from national politics and prevented victorious Republican presidential candidates from transferring their support to House candidates. The GOP can no longer count on national tides to boost its congressional party into the majority.

Gerrymandering

The other factor Republicans most often identify as the primary source of their continued minority status is redistricting or, more specifically, partisan gerrymandering. The case that a Democratic bias in redistricting has cost the Republicans a large number of seats in the House — perhaps even enough to deny them the majority — rests upon three undisputed facts: (1) the Republican share of the national vote for the House has not produced a proportionate share of seats; (2) the Democrats have largely controlled the redistricting process by virtue of their dominant position in state legislatures and governorships; and (3) the population shifts during the 1960s and 1970s that led to the reapportionment of seats among states and the redrawing of district lines within states did not produce the expected Republican gains.

Measuring a Fair Share

Since 1958 the Republicans have failed to win more than 44 percent of the seats in the House even though they have won 48 percent of the major-party vote on several occasions. The Democrats have enjoyed a consistent seat bonus (that is, the difference between the percentage of seats and votes won) during this period, ranging from 4.1 to 10.9 percentage points. In the only two elections since 1930 won by the Republicans (1946 and 1952), a Republican seat

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House at the same
time that it occupies
the White House."*

bonus was present but at substantially lower levels (3.2 and 1.6 percentage points, respectively). If one examines only districts in which both parties ran candidates, the total Republican House vote appears more competitive. For example, Republican candidates won a majority of the votes in the 367 contested House races in 1984, yet 50.3 percent of the major-party vote in these districts gave the Republicans only 46 percent of the seats.

Using the relationship between votes and seats to detect partisan bias in redistricting has two major problems. The first is the lack of correspondence between population and votes, due to differences among districts in the number of eligible voters and in turnout rates. Democrats represent a disproportionately large number of districts with low turnout, including many with high concentrations of ethnic and racial minorities. An inner-city Democrat who wins 75 percent of the vote with a turnout of 125,000 will have 75,000 fewer votes than a Republican who wins by the same percentage in a suburban district with a turnout of 225,000. By the standards of a population-based (rather than voter-based) districting system, the additional 75,000 Republican votes should not earn the party any additional representation in the House. These partisan disparities in turnout account for part of the difference between Democratic votes and Democratic seats. The mean district vote percentage for each party — the sum of the percentage of the vote won by a party in each district divided by the total number of districts — is a more appropriate measure of a party's vote than the aggregate tally. The 1984 mean district vote percentage won by Republicans in the 367 contested districts was 49.4 percent. By this standard, the Republican share of the seats in these districts seems more reasonable.

The second problem concerns the expectation that under a fair or unbiased system a party's national vote will earn a proportional share of seats in the House. A single-member, winner-take-all election system will produce proportional outcomes only under conditions of extreme residential segregation. Conversely, if a majority party's supporters are evenly distributed across districts, a bare majority of votes can win 100 percent of the seats. Numerous scholars have demonstrated that under a normal distribution of political strength, the majority party will win an increasingly disproportionate share of the seats as its vote moves above 50 percent. Bernard Grofman calculates that in an electoral system like that for the U.S. House of Representatives, a purely random drawing of district lines produces a relationship between votes and seats in which 45 percent of the vote wins 40 percent of the seats while 40 percent of the vote translates into only 31 percent of the seats. Estimates based on random or blind districting are not far from the actual votes and seats Republicans have won in recent decades.

Circumstantial Evidence . . .

These expected departures from a proportional relationship between votes and seats do not dismiss gerrymandering as a factor in the Republicans' long-term minority status, but they do shift the burden of proof. The two additional pieces of evidence mentioned above — the partisan control of the redistricting process and the political significance of population shifts — are relevant but far from sufficient to make the case. Democrats have had a

clear advantage in recent decades by virtue of their partisan strength in the states. The round of redistricting following the 1970 census found the Democrats in control of both houses of the legislature and the governorship in 16 states. And despite the efforts of the national Republican party to strengthen its position in the states, the Democrats retained a clear advantage a decade later, controlling 17 states compared with six for the Republicans. In many states, including several that enjoyed the largest increase in the size of their delegation, the Democrats were in a position to impose their will. The well-publicized California redistricting plan crafted by the late Representative Philip Burton convinced many observers the Democrats were doing just that.

Population shifts among and within states appeared to favor the Republican party. What began after the 1970 census as clear but isolated population gains for California and Florida became by 1980 a dramatic shift from Frost Belt to Sun Belt. Not a single state in the Northeast or Midwest gained a seat: none in the Southwest lost one. New York gave up five seats, the largest reapportionment loss in the century, while Florida gained four. In 1984 President Reagan ran 4.3 percentage points better in the states that gained seats in the 1980s than he did in the states that lost seats. Just as important were population shifts within states: the fastest growing areas demonstrated a strong tilt toward the GOP.

The circumstantial evidence was strong. Population gains in areas of Republican strength produced few, if any, Republican seats. Since Democrats had the upper hand in the districting process, gerrymandering had to be the prime suspect. And to the extent that Democratic plans were blocked by divided state governments, the Democrats, as the majority party in the House, also stood to gain from the resulting bipartisan gerrymanders.

. . . Does Not Make the Case

However plausible this argument, rigorous analyses of redistricting have largely failed to support it. The methodological problems of measuring the effects of redistricting are daunting, but several scholars have developed sophisticated methods for dealing with them. Their considered judgment is that redistricting has had little effect on the partisan makeup of the House. In a major assessment of the redistricting that followed the 1970 census, Amihai Glazer, Bernard Grofman, and Marc Robbins concluded that districting changes had minimal consequences for the parties and for incumbents, both nationally (in terms of net shifts of seats) and in particular states. Richard Born, after examining 91 districting plans developed between 1952 and 1982, argues that partisan control of redistricting has had only a very modest effect on party lineups, a relationship that became even more tenuous over the 30-year period. He concludes that one-man, one-vote requirements have weakened the ability of parties to devise one-sided plans and that, in any case, voters are less inclined to behave as expected. Both sets of findings are consistent with the earlier work of John Ferejohn, who found that gerrymandering did not account for the increased incumbency advantage in the mid-1960s.

I do not mean to suggest that politicians are fools for believing that redistricting matters. Given the opportunity,

a majority party will seek to maximize the number of winnable seats by increasing the efficiency of its electoral strength (shifting excess partisan strength from some of its safe seats to marginal seats controlled by the opposition party) and by eliminating an incumbent's seat or putting two minority-party incumbents in the same district. Bruce Cain has demonstrated that the 1981 remapping of California seats helped swing five seats to the Democrats through an artful combination of partisan reconstruction and incumbency removal. Similar though less radical post-1980 redistricting plans were evident in New Jersey, Indiana, and Pennsylvania, the latter two favoring the Republicans.

Nonetheless, many factors conspire to dilute the net effects of gerrymandering. Gerrymandering in states under one-party control is constrained by population trends in adjoining districts; the geographical clustering of party supporters; the unwillingness of safe incumbents to give up excess supporters or to alter in any substantial way their existing boundaries; the political ambitions of state legislators; the protection of racial minorities by the courts; the difficulty of predicting votes in House elections from party registration figures; and the intervention of national political tides that, when combined with the advantages of incumbency, can subvert the partisan intentions of those drawing the lines. Moreover, most redistricting is done in states with divided control or under supervision by the courts, both factors that tend to favor the status quo. Finally, population shifts from inner city to outer suburb and from Frost Belt to Sun Belt should be expected to produce significant partisan changes only if the partisanship of the individual movers changes. There is little evidence to suggest the latter has occurred in any substantial way.

GOP Problems

If incumbency and gerrymandering cannot account fully for the Republican party's long-term minority status in the House, what other factors are involved? First and foremost is the weakness of the Republican party among rank-and-file voters. While the Democratic advantage in party identification narrowed during the 1980s, the Republicans have never recovered from the New Deal realignment that propelled the Democrats into a commanding position in the electorate. And while party attachments have weakened in recent decades, the vast majority of votes cast for the House continue to be consistent with party identification. In this respect, it is not trivial to observe that the Republicans are the minority party in the House because they are the minority party in the country.

Second, House Republicans have been the victims of their party's success in presidential elections. Unless it succeeds in stimulating a major political realignment, a party will find it virtually impossible to strengthen its position in the House at the same time that it occupies the White House. If the initial election that wins the presidency for a party does not produce a House majority, the window is effectively closed for the duration of that administration. One of the regular patterns of American politics — the loss of seats at midterm by the president's party — ensures that. House Republicans have never recovered from their losses caused by the Eisenhower recession of 1958 and the political and economic troubles of the Nixon-Ford administrations in 1974.

Third, Republicans have suffered from certain self-fulfilling tendencies characteristic of a long-term minority party. To win many more House seats, the Republicans need to recruit strong candidates, capable of raising large war chests, to challenge Democratic incumbents election after election. Yet it is extremely difficult (for both candidates and supporters) to sustain serious challenges in the wake of repeated defeats. The problem exists at both the district level and the national level. Why run when defeat is almost certain? And why run if winning means never being in the majority? Minority status discourages strong candidates, which in turn ensures continuing minority status. In recent years the national Republican party has tried to break this cycle by investing considerable resources in candidate recruitment and campaign assistance. Their efforts, however, have had only limited success.

These three factors have combined with the larger changes in the structure of elections to make House Republicans the permanent minority party in American politics. Is there any prospect for a Republican revival in the House short of a major upheaval in the party system?

A Recipe for Republicans

Despite the Democratic dominance in the House over the past three decades, I believe it is a mistake to assume that present patterns will extend inexorably into the future. The simple fact is that the Republicans now need to pick up 41 seats to take control of the House. Even by contemporary standards this goal is not unreachable. The Democrats gained 43 seats in the 1974 elections, while the Republicans won 46 over two consecutive elections (1978 and 1980). One can imagine several scenarios that would put the Republicans in the majority sometime during the next decade. All involve different combinations of the following ingredients.

First, the Republicans need to strengthen their support among voters generally, by improving their party image and by increasing the percentage who identify with the GOP. The impressive Republican gains of the early 1980s appear to have been halted and partially reversed by the series of difficulties the Reagan administration encountered in late 1986 and 1987, most notably the Iran-contra scandal. The Republicans desperately need Reagan's administration to end on a positive note of accomplishment, not confrontation and disarray. The image of the Republican party, and the loyalty of the younger voters who Ronald Reagan attracted to the GOP, can be strengthened by a clear display of leadership and competence.

Second, the Republicans must strive to reduce the insulation of House elections from national politics by sharpening and heightening partisan differences. A party's ability to heed this advice depends partly on the context: 1980 provided a more hospitable environment for a unified national Republican campaign than 1982. Nonetheless, Republicans would increase their probability of success by working to make some House races more like Senate contests, that is, less personalized and more ideological and issue-oriented.

Third, a party can succeed in House elections only by fielding able and well-financed challengers. Candidate recruitment is very difficult when a party appears mired in the minority; the problems are also formidable when

national conditions go bad on that party's watch. The Republicans need to find ways to counter these natural psychological tendencies, particularly when the political climate is working against them, and to ride even higher on the national tides that roll in their favor. Their organizational and financial advantages should be directed toward ensuring sustained, vigorous opposition in the 100 or so Democratic seats judged to be most vulnerable.

Fourth, the Republicans need to continue their inroads in the formerly one-party Democratic South. While there is an obvious lag between Republican success at the presidential and congressional levels, the fact remains that over approximately the past quarter century the Republican share of the South's delegation in the House has grown from 6 percent to 37 percent. Continued movement toward parity is by no means assured (the Republicans suffered setbacks in both 1982 and 1986), but the growing Republican loyalty among white Southerners makes the region an attractive target for House Republican strategists.

Fifth, the Republicans must avoid a blatant displacement of their incumbents in the post-1990 round of redistricting. As I argued above, gerrymandering accounts for relatively little of the Republican shortfall in the House. At present, the Republicans appear to be relying too heavily on a redistricting strategy grounded on the Supreme Court decision in *Davis v. Bandemer*, which held that political gerrymandering is justiciable. Nonetheless, they can help protect themselves against marginal losses in the redistricting process by reducing the number of states in which the Democrats control both houses of the legislature and the governorship and by using the courts to dampen Democratic gains.

Sixth, the Republicans probably must lose a presidential election in order to position themselves to take a majority of the House seats. Only by absorbing a short-term loss will they be able to earn a long-term gain.

With these ingredients, it is not difficult to prepare a recipe for Republican success. The Democrats win a closely contested presidential election in 1988 but fail to increase their House majority by more than a handful of seats. Republicans, taking advantage of the economic problems that dog the new administration, recruit a group of exceptionally able candidates for the 1990 congressional and state elections. The Republicans win 20 new seats in the House and hold the governorships in California, Texas, and Florida, the states likely to reap most of the 1990 reapportionment harvest. The Democratic president is renominated in 1992 after a bitter primary struggle, only to face a strong Republican candidate leading a unified party. A new round of stagflation raises the specter of economic collapse, and the Republican presidential candidate wins in a landslide. The strong Republican tide gives the party the lion's share of the redistricting gains, and Republicans take control of the House with a pickup of 33 seats.

I offer this scenario not as a likely occurrence, but as a plausible one. It suggests that a Republican majority is not beyond the realm of possibility and that no upheaval in the structure of House elections is required to change party control. Though the advice is likely to fall on deaf ears in Republican circles, a defeat in the 1988 presidential election may be the necessary first step toward winning a Republican majority in the House.

Soviet Arms Control Policy in Perspective

Jerry F. Hough

SINCE COMING to power, Mikhail S. Gorbachev has made one unexpected move after another in arms control. He has linked and unlinked intermediate-range nuclear missile reductions both with the Strategic Defense Initiative and with reductions of British and French missiles. He accepted elimination of intermediate- and short-range missiles, the zero and double-zero options, from Europe and then from Asia, reductions the Pentagon had supported because it thought Gorbachev wouldn't accept them. It is still unclear why in late October, after abruptly vetoing a summit, he just as abruptly agreed to meet with Reagan in Washington in December. No one thinks that we have seen the last surprise.

Why is Gorbachev so consistently able to catch us offguard on arms control? To some extent, the problem is that we became so accustomed to the stodginess of the Brezhnev era that we are not used to the normal flexibility of a skillful adversary. To some extent, Soviet policy may have been genuinely uneven as a new foreign policy team gained experience. But the fundamental problem goes much deeper: we simply have not understood Gorbachev's imperatives and strategy in international relations. Indeed, we have not even conceptualized Leonid Brezhnev's foreign policy correctly, and thus we have been ill-prepared to understand the choices that any new Soviet leader faces.

Two Iron Curtains

Although experts in the West disagree in their analyses of Soviet foreign policy, the basic problem has been the implicit framework of the debate itself. To be blunt, the debate has missed the major point altogether. It has focused on Soviet policy toward other governments and nongovernmental communist or peace movements, asking whether the Soviet Union has been expansionist, opportunistic, or defensive. In fact, Soviet policy has been a combination of all three. It is not the Soviet Union's *policy* toward foreign governments and movements that has been distinctive, but its foreign *relations* — its relations with foreigners in the most generic sense of the word.

For many people, the peculiar character of Soviet foreign policy is symbolized by its intervention in Afghanistan and Angola. Sadly, such policies have been reasonably normal for all great powers. What really symbolizes the peculiarity of Soviet foreign relations is the fact that the capital of Russia does not have a single French, Italian, or Indian restaurant, and only one Chinese restaurant. The essence of Soviet foreign relations was the creation of two iron curtains — one against modern Western ideas and culture, and the other against Western market forces. From this broader perspective, the word "isolationism" characterizes Soviet relations better than "expansionism" or "opportunism" or

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"self-defense" — although, especially in the pre-Brezhnev years, it was the kind of prickly, belligerent isolationism that marks Khomeini's Iran. During the cold war we talked about containing Soviet expansion, but the phrase "iron curtain" reminded us that the Soviet Union was also self-containing in some very important ways. It was American culture that permeated through the world and transformed people's lives in a revolutionary manner, not the Soviet culture and way of life.

Indeed, in my opinion, it was precisely this xenophobic isolationism that lay at the heart of the Bolshevik Revolution in Russia. The theory of totalitarianism was right in postulating that left-wing extremism and right-wing extremism are similar. Both embody the xenophobic rejection of modern Western values, a rejection that is most clearly displayed in the right-wing extremism of Iran today. In many ways the Bolshevik Revolution was the Khomeini revolution of Russian history. In both countries the two iron curtains were designed to protect people who streamed into the city in the early stages of industrialization, only to find the city frightening, almost satanic.

If the essence of Soviet relations with foreigners is seen in these terms, any Soviet leader in the mid-1980s faces two fundamental problems. First, the Soviet population has increasingly acquired a settled, urbanized, middle-class character. The administrative-professional stratum has grown enormously, and Russian blue-collar workers have also changed. In 1939, 93 percent of Russian workers had an elementary education or less, but by 1970, 20 percent of workers in the Soviet Union had a high school diploma or better. A mere nine years later, 42 percent had finished high school, a fact that implies a much higher educational level among the politically crucial young workers. For decades Soviet urban youth has not wanted protection from satanic Western blue jeans and rock-and-roll but has yearned for them, and the young of the 1950s are the middle-aged bureaucrats and workers of the 1980s. The middle-aged of coming decades will be even more westernized.

Dictatorship has proved an unstable system of rule as

countries reach the stage of development found in Argentina, Brazil, and Spain — and in Czechoslovakia and Poland. At some point a Soviet leader may conclude — rightly, I think — that iron curtains against Western culture and ideas create so much resentment among the growing middle class that they seriously undercut political stability rather than contribute to it.

Second, protecting newcomers to the city from frightening market forces also meant protecting Soviet manufacturers from foreign competition. Soviet protectionism went well beyond the imposition of tariffs, shielding Soviet industrialists to a degree that makes Japan's economy look open. The consequences of this protectionism were precisely what textbooks would predict. The Soviet Union began falling behind Third World countries such as South Korea in its ability to produce automobiles, television sets, and other consumer goods of sufficient quality to sell on the world market.

Both the changing character of social forces in the Soviet Union and the economic imperatives of national power created growing pressure to change the Soviet Union's relationship to the outside world. In the Brezhnev era controlled cultural exchanges and controlled foreign trade were expanded, and interested citizens had little difficulty in listening to semi-illicit foreign broadcasting. Nevertheless, in comparative perspective the striking fact about the Soviet Union in 1982, the year Brezhnev died, was its degree of isolation from the world economy and the world intellectual community.

The pressure against the two iron curtains that were the essence of the Bolshevik Revolution, combined with a great reluctance on Brezhnev's part to lift these curtains, defined both the politics of the 1970s and the fundamental question to be faced by the post-Brezhnev leadership. Although Gorbachev asserted in 1985 that foreign policy is a continuation of domestic policy, he understated the case for Russia during this period. The Soviet relationship to foreigners — to their culture, ideas, and market forces — is such a key domestic policy question that foreign policy is domestic policy, not a continuation of it. The security

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aspects of the arms control measures on the table have been insignificant in comparison with this basic foreign policy choice, and arms control policy has been subsidiary to it since the fall of Khrushchev.

Brezhnev's Policy

Soviet policy toward other governments has thus been a secondary aspect of Soviet relationships with foreigners (except when Nazi Germany posed a genuine, pressing threat), but it did, of course, exist. During the postwar period, its most visible component was the relationship with the United States, and arms control in turn became the most prominent aspect of that relationship.

But how should the Soviet-American relationship be defined? For years the leading cliché used by Western moderates has been "a combination of competition and cooperation." This phrase was vague, but the implicit model of a good relationship between the two countries was cooperation in arms control and crisis management, coupled with competition in other spheres, specifically a continuing struggle over the path of development of Third World countries and over the geostrategic orientation of Western Europe. The problem for both sides has been seen as one of how to maintain the arms control détente, symbolized by SALT II, in the face of competition, symbolized by Angola and Afghanistan.

Foreign policy is always extraordinarily complex, and the interaction of different national interests and domestic bureaucratic interests inevitably produces policy with many internal contradictions. Indeed, to a considerable extent, the foreign policy of any country is determined by other countries that create unexpected crises and opportunities. In these circumstances, defining the driving forces behind a particular foreign policy is always a subtle question, all the more so because the driving forces vary from question to question.

If, however, one must generalize — and one must — the clichés about cooperation and competition tend to reverse the reality of the 1970s rather than reflect it.

In the first place, there was much talk about cooperation in arms control in the 1970s but little cooperation. During the period of détente, both sides sharply increased the number of nuclear warheads; they also maintained huge armies in Europe when, objectively, little danger of war existed there.

In the second place, Soviet-American competition in Europe and the Third World had its limits. In retrospect, alignments in Europe have been extraordinarily stable during the last 40 years. (For comparison, one need only recall that Russia was allied with Germany in the 1880s, against Germany beginning in the 1890s, basically with it in 1922 after the Rapallo Treaty, against it in a military alliance with France in 1935, with it in the nonaggression pact of 1939, and against it once more in 1941.) In the postwar period neither superpower seriously challenged the hegemony of the other within its European sphere of influence, and the Soviet Union was even less effective in challenging the Japanese-American political and military relationship.

While the competition in the Third World was more intense, it too was not unbridled. In the Middle East the two superpowers tended to be on the opposing sides of issues, but both followed a clear-cut policy of cooperation in regional crisis management. (This cooperation was symbolized by Henry Kissinger's flying to Moscow during the 1973 war and issuing an ultimatum to Israel from there and was embodied by Moscow's decision to give the same deputy minister of foreign affairs responsibility for both the United States and the Near East.) Moreover, the Soviet Union's anti-Americanism in the Middle East did not preclude a quite civilized, even warm, policy toward Turkey and the Shah of Iran, even though the former was in NATO and the latter had a close military and intelligence relationship with the United States.

In the rest of the Third World, the Soviet Union was in conflict with China as well as with the United States. In practice, the most radical anti-American movements in the 1960s and the 1970s also tended to be attracted, at least emotionally, to China, which often forced the Soviet Union

to choose between its respective enmities. It invariably treated China as the more bitter adversary of the two, giving little, if any, support to anti-American forces who were also pro-Chinese. Indeed, in Vietnam, Angola, and Afghanistan, where the Soviet Union clashed most severely with the United States in the Third World in the 1960s and 1970s, China was also involved. In these cases, the competition with China was probably the decisive factor shaping Soviet policy.

In short, while the Soviet relationship with the United States was highly competitive in many respects, cooperation between the two countries was much more substantial than usually acknowledged and was not limited to arms control. Mao Zedong even complained about a Soviet-American alliance in the 1960s and the 1970s, and his image of Soviet-American relations as an extremely conflict-laden alliance may be closer to the truth than the image of a zero-sum game struggle to the death, moderated only by the desire to avoid nuclear war.

Two factors drove Soviet policy in this cooperative direction — one geostrategic and the other domestic political. Scholars have tended to assume that geostrategic considerations pushed the Soviet Union toward intensive competition with the United States, but this analysis reflects the thinking of the pre-nuclear, intercontinental rocket age. Once the superpowers could directly attack each other with ICBMs sent over the North Pole, the alignments of lesser powers became much less important. The tragedy of Vietnam is that from an international security point of view, it did not really matter that the United States lost the war, and it would not have really mattered if the United States had won. Military control of Western Europe could even be treated in analogous ways.¹

From a geostrategic point of view, the crucial consideration for a superpower with nuclear weapons and intercontinental rockets is to avoid a proliferation of nuclear weapons and to prevent regional conflicts from leading to nuclear war between the superpowers. From a Soviet

geostrategic point of view, it is preferable for West Germany and Japan to remain firmly within the American sphere of influence than for either to be neutral. The evolution of domestic politics within a neutral Germany or Japan would eventually produce governments that would increase military expenditures and perhaps even acquire nuclear weapons. Moreover, if NATO should dissolve, French-German hostilities could resurface, which might create a danger of an unmanageable conflict.

It is unclear whether Soviet leaders thought through the implications of the nuclear age clearly. Andrei Gromyko may well have, and he, rather than Henry Kissinger, may have been the real Metternich of the third quarter of the 20th century, skillfully using the United States to keep Western Europe and Japan nonthreatening. Most of the Politburo members, however, were probably led in the right direction by their instincts (to use the word of a leading Soviet journalist, Alexander Bovin), by their deep fear of Germany and Japan. Those of Brezhnev's generation could remember conflicts in Western Europe that tore Russia apart twice in their lifetimes, and they were told about the Russo-Japanese War of 1905 by their parents. Surely they must have believed deep in their soul that neither Europe nor Japan could be allowed to devastate Russia again. American leadership of the Western alliance served this purpose well.

Whether the Soviet leaders were conscious of it or not, a threatening Soviet posture — an unnecessarily large army, configured in an offensive posture, and the secret deployment of SS-20 missiles — had the effect that balance-of-power theory predicted: weak powers coalesce in the face of a dangerous large power. Soviet military power did not "Finlandize" or intimidate Western Europe, as Americans feared, but maintained the alliance against the Soviet threat. NATO is the longest-lasting military alliance in Soviet history — the solution that the Soviet leaders instinctively wanted — and it is at least conceivable that they were taking threatening steps precisely to keep the alliance intact.²

The second driving factor in Brezhnev's foreign policy was a domestic political one. At the same time the Soviet middle class was expanding, the country's economic problems became increasingly obvious. The pressure for reform steadily grew, and because Brezhnev opposed economic reform, his only option was to control the pressure for it.

The strongest political argument for reform was that Soviet technological backwardness endangered defense capability, an argument that was strengthened by the head of the General Staff, Nikolai Ogarkov, who publicly expressed concern about Western technological advances. Brezhnev needed to defuse this argument, and in this sense his foreign policy was, indeed, a continuation of his domestic policy.

Brezhnev's arms control policies were extremely functional in terms of his domestic political requirements. Ideally he would have liked to limit American technological advances in weaponry, but the United States would not accept limits. Second best from Brezhnev's point of view were measures such as the antiballistic missile (ABM), SALT I, and SALT II treaties that created the impression at home that American technology was under control. Brezhnev needed to create this impression so strongly that he paid for it by allowing large-scale emigration.³

*"What is motivating
Gorbachev's decisions
in the arms
control negotiations?"*



In addition, Soviet maintenance of an unnecessarily large conventional force created a sense of threat in the West that, when broadcast back into the Soviet Union on foreign radio, made it very difficult for reformers to argue that the Soviet Union had a serious defense problem. Brezhnev resisted any significant disarmament in the conventional sphere that would have reduced the sense of threat. Those Western conservatives who said that détente was a substitute for reform were correct — at least so far as Brezhnev's form of détente was concerned.

Gorbachev's Different Tack

Gorbachev's foreign policy is obviously very different from Brezhnev's in a number of ways. Unquestionably Soviet policy and especially foreign public relations are more flexible. Nearly everyone concedes that Gorbachev is reducing the priority given to revolution in the Third World and is devoting greater attention to building closer relations with the moderate or even conservative industrializing countries such as Kuwait and Brazil.

In the arms control arena, Gorbachev has been masterful in his tactical flexibility. In no area has this been clearer than in the intermediate nuclear force (INF) negotiations.

Even when Gorbachev backed off his demands for linkage and accepted American proposals for no intermediate- or short-range missiles either in Europe or Soviet Asia, he somehow managed to gain credit for them himself.

What is motivating Gorbachev's decisions in the arms control negotiations? Why is he accepting proposals that his predecessors rejected? Does it mean that Brezhnev's reluctance to risk German independence has been abandoned and that Gorbachev is determined to challenge the United States for geostrategic supremacy in Europe?

Such an interpretation is frequently advanced, but I think it fundamentally mistaken. The Soviet Union under Gorbachev retains a geostrategic interest in the stability of military alignments in Western Europe and the Pacific for the same reasons it had under Brezhnev. While Brezhnev's fear of Germany gave his policy emotional intensity, it flowed from the logic of the age of intercontinental nuclear weapons. Gorbachev has repeatedly denied wanting to split the United States and its allies. In the chapter on Europe in his new book, *Perestroika*, Gorbachev stated flatly, "We do not intend to engage in diplomatic juggling, and we have no wish to provoke chaos in international relations. . . . Our idea of a 'common European home' certainly does not involve shutting its doors to anybody."⁴

*"If Gorbachev is willing to move out of the postwar era,
and that is precisely what his domestic
policy implies, we can only welcome it. But,
first of all, we must understand what is happening,
or else we will make one mistake after another."*

He is quite sincere, at least so far as the military alliance is concerned.

Indeed, if we assume the validity of balance-of-power theory and treat Soviet intermediate- and short-range missiles as weapons that tend to hold NATO together rather than as neutralizing instruments, then the Soviet reluctance to accept the American proposal to eliminate these weapons can be seen as evidence of its unwillingness to promote the decoupling of the United States and Western Europe. It was the United States that forced through the zero options and then, against Soviet objections, pushed for a more rapid withdrawal than the Soviet Union wanted.

The crucial difference between Gorbachev and Brezhnev does not lie in their geostrategic visions, but in their attitudes toward economic reform. As Gorbachev implied when he said that foreign policy was a continuation of domestic policy, a change in Brezhnev's domestic policy demands a change in Brezhnev's foreign policy.

First, economic reform ultimately requires the Soviets to open their economy to the world economy — to eliminate the near-total protection from foreign competition enjoyed by Soviet manufacturers. Such an opening entails an export strategy, an emphasis on licensing arrangements, the promotion of joint production with foreign firms, and the encouragement of foreign investment in the Soviet Union. The success of these activities requires much greater access to foreign technology than the Soviets had in 1970 and is ultimately dependent on the prevention of a foreign technological blockade. If the United States is determined to impose one, as it is doing, the Soviet Union will be forced to break it through a policy directed at Western Europe, Japan, and the industrializing Third World countries.

Second, an economic reform that requires massive investment in high-technology civilian spheres places real restrictions either on military spending or on consumption, and restrictions on consumption may be impossible if unrest in the face of a difficult reform is to be avoided. The only way to cut military spending signifi-

cantly is to reduce expenditures on conventional armaments. In addition, if the Soviet Union is to obtain large-scale investment from Western Europe, it needs to reassure Europeans that they are not threatened with invasion. Both of these factors give Gorbachev a compelling reason to seek the conventional disarmament that Brezhnev sought to avoid.

Third, if the strongest argument for reform is one that focuses on national defense and power — and Gorbachev makes that argument repeatedly — then he should not permit arms control agreements to defuse the argument, if at all possible. Reducing a sense of threat among Europeans runs the danger of creating a similar relaxation inside Russia. However, the threat useful for domestic political reasons is a long-term American technological one that legitimates expenditures on computerization, not a short-term one in Europe that legitimates unproductive expenditures on tanks and troops.

For Gorbachev, the perfect symbol of the danger of continued Soviet technological backwardness is the Strategic Defense Initiative. If it eventually proves successful (and the Soviets must make a worst-case analysis), then the Soviet Union is defenseless. Since the major bottleneck in SDI development in the United States is insufficient computer and computer software capability, the only correct Soviet response is a pell-mell program to bring its computer capability to world levels — just what Gorbachev wants in any case. Thus, SDI provides the best argument that the diversion of funds from troops and tanks to the development of civilian high-technology is the best defense strategy. If American technology could be controlled altogether, that would be very worthwhile, but an agreement to "control" SDI for a limited number of years while permitting vigorous research seems to limit American technology without actually doing so. Nothing is more disastrous from Gorbachev's political point of view than to lose the domestic bogeyman while the technology gap expands.

These three foreign policy imperatives of Soviet reform do not fit together easily, for they tend to be mutually

contradictory. Gorbachev retains an interest in maintaining the Western military alliances at the same time that he must try to break American attempts to limit allied technology flow to the Soviet Union; he needs détente — really entente — with Europe, while telling his people that sacrifices are necessary; he needs conventional disarmament when Western arms control forces prefer nuclear arms control.

The pattern of events that we have observed reflects rather well the complex set of pressures upon the Soviet leader. First, Gorbachev has given added importance to Western Europe and the industrializing Third World countries (although not yet Japan) in several ways. The first two summits with President Reagan were held in Europe, and the third has resulted in an agreement that deals primarily with Europe (and to a very limited extent with Soviet rockets aimed at the Far East). Agreement to withdraw intermediate- and short-range nuclear weapons from Europe has increased the political pressure to address the conventional threat, and Gorbachev gives every sign of being serious about conventional disarmament in Europe.

Dealing with America's allies to break the technological blockade is easier if America legitimates their negotiations with the Soviet Union. Otherwise the allies may fear the loss of American markets or of the American nuclear umbrella. It was no coincidence that East German leader Erich Honecker went to West Germany on the eve of the meeting in September between Secretary of State George P. Shultz and Soviet Foreign Minister Eduard Shevardnadze, or that Shevardnadze flew from Washington to Argentina, Brazil, and Uruguay. This legitimization is the real "concession" that President Reagan paid to get the summit he wanted, and it is the reason that the Soviet Union is willing to risk a decoupling that it does not want.

At the same time Gorbachev has continued to describe the United States in very threatening terms. The general secretary has stated that the United States is featured by "monopolistic totalitarianism," that it is ruled by a military-industrial complex, and that its intent is to dominate the world. The very fact that SDI will not work as a totally effective space shield only proves, he asserts, that it is part of a first-strike strategy, designed to ward off a partial Soviet retaliation after an American attack.

Even on the eve of the 1987 summit, Gorbachev's discussion of the United States in his just-published book, *Perestroika*, had a radically different tone from his chapter on Europe. He wrote of America's "immoral intention to bleed the Soviet Union white economically" and called the SDI "an instrument for ensuring domination." He said that "we have not moved an inch forward so far" in Soviet-American relations and spoke of "normal" relations — not even the cordial relations he discusses for Europe — in terms of "however far off it may seem."

Gorbachev's emphasis on the SDI issue in his Moscow talks with Secretary of State Shultz in October was not accidental. On the eve of a major reform in agriculture and a politically dangerous increase in meat prices, Gorbachev needed to raise again the danger of technological backwardness. But he still needs continuing arms control negotiations with the United States to facilitate trade negotiations with the Europeans and Japanese and wants to tell his military that the pace of SDI is being regulated. He has achieved these goals without losing SDI

as a domestic issue by now linking a strategic arms agreement not with SDI, but with an extension of the ABM Treaty, as traditionally defined. The United States will never agree to the latter without emphasizing its intention to pursue a vigorous SDI research program. Such American statements give Gorbachev the argument he needs that the long-term threat is still very great.

Seizing the Opportunity

What then are the implications for the United States? Some say that Gorbachev is weak and imply that he can be pushed to the wall. Others say that Gorbachev is weak and that the United States should help him in his reform. In fact, Gorbachev seems to be well along in one of the most rapid consolidations of power in Soviet history, and he has repeatedly made life very difficult for the United States. He can take care of himself, and it is for us to look after our own interests.

First, we must understand that balance-of-power theory is right. It is not a Soviet threat that promotes European neutralism but removal of the threat. The INF treaty is a minor enough step that it does not cause great danger. But the fact that we insisted on a zero option rather than the partial withdrawal that the Soviet Union wanted — and that would have posed less of a danger of decoupling — is a warning that we must begin thinking more clearly.

Second, we must understand that the major source of American power has been its economic strength and the attractiveness of its economic system. A military build-up that weakens the economy hurts national security rather than helps it. If Gorbachev will permit us to reduce the deficit by a mutual reduction of conventional arms, then we should welcome the fact that our respective economic interests are congruent.

And, finally, if the Soviet opening to the world economy is part of a general reintegration of Russia into Western civilization, we face a situation that we have considered so unthinkable that we have given no thought to it. We have the chance through foreign investment to break down Russian stereotypes about the exploitative nature of capitalist managers. We have the chance to reduce the kind of xenophobia that may lead to irrational decisions that are fraught with grave danger in the nuclear age. If Gorbachev is willing to move out of the postwar era, and that is precisely what his domestic policy implies, we can only welcome it. But, first of all, we must understand what is happening, or else we will make one mistake after another.

1. For such an analysis, see Robert W. Tucker, "The Nuclear Debate," *Foreign Affairs*, Fall 1984, pp. 1–32.

2. In actuality, the initiative for the threatening military posture more than likely came out of the military, the result of the logic of military doctrine and bureaucratic pressure. But the reason that the party leadership accepted the advice of the military is that the advice did not undercut the political and foreign policy needs of the leadership but served them.

3. The United States linked Soviet emigration with the granting of most-favored-nation treatment. Yet, while this status was never given, emigration varied enormously from time to time — and in close relationship to the progress in arms control. Without saying it, the Soviet Union was following its own linkage policy.

4. Mikhail S. Gorbachev, *Perestroika: New Thinking for Our Country and the World*, Harper and Row Publishers, 1987.

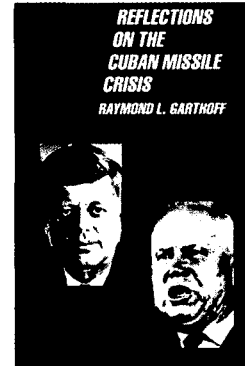
New Perspectives on Past Events

TWENTY-FIVE YEARS have passed since the tense standoff between President John F. Kennedy and Soviet leader Nikita S. Khrushchev in October 1962 that came to be known in the United States as the Cuban missile crisis. Although much has been written about the crisis itself and the lessons that have been and can be learned from it, much still remains to be addressed. In *Reflections on the Cuban Missile Crisis*, Raymond L. Garthoff, a Kennedy administration adviser who participated in the crisis deliberations, draws on his recently declassified memoranda and recollection of events, as well as other sources, to add new facts and dimensions to the public's understanding of the crisis.

Previous memoir accounts, histories, and analyses have concentrated almost entirely on two themes: the dynamics of personalities and politics in American decisionmaking during the crisis, and lessons in crisis management. Garthoff supplies an aspect of analysis usually neglected — the crisis as experienced by the Soviets and the lessons they appear to have drawn from it. He emphasizes the need to include this integral element of the picture not only to broaden historical perspective, but particularly to understand the interaction of American and Soviet policymaking in the events leading up to the crisis, during the confrontation itself, and in the subsequent development of U.S.-Soviet relations. Now a senior fellow in the Foreign Policy Studies program at Brookings, Garthoff in 1962 was the special assistant for Soviet Bloc Politico-Military Affairs at the Department of State.

Reflections on the Cuban Missile Crisis

By Raymond L. Garthoff
\$8.95 paper; \$18.95 cloth



Candidate for Change

AS THE NATION heads into a presidential election year, complaints about the American political process seem to be as frequent as gripes about the weather. In *Elections American Style*, top experts in government and politics examine the concerns underlying these complaints, identify genuine problems, and propose practical reforms where they are required. Among the questions discussed are: Does the present method of financing campaigns have a corrupting effect on government? How can turnout be increased? Can the parties be revived? Is the system stacked against minorities? Do the media dominate the election system? Does the presidential nomination system need to be reformed?

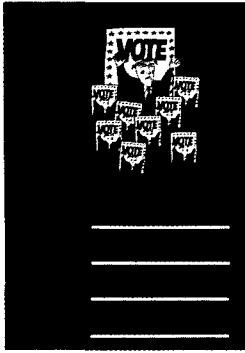
The analyses and proposals are varied, controversial, and provocative. Walter Dean Burnham of the Massachusetts Institute of Technology, for example, writes that making it easier for voters to register would increase turnout by about 10 percent, which would still leave the United States far behind most other democracies in voter participation. He contends that many voters find the "personalistic" politics of today irrelevant to their concerns and probably will not go back to the polls until elections offer more meaningful choices.

James W. Ceaser of the University of Virginia looks at the presidential nominating process. He urges a moratorium on further comprehensive reforms at the national level accompanied by action at the state level to give more control over the nomination process to elected officials and other practical politicians. Writing about campaign reform, Larry Sabato, also of the University of Virginia, suggests that television stations be required to make blocks of prime time available to the political parties during campaigns; the parties would then allocate the time among individual candidates.

Elections American Style was edited by A. James Reichley, a senior fellow in the

Elections American Style

Edited by A. James Reichley
\$11.95 paper; \$32.95 cloth

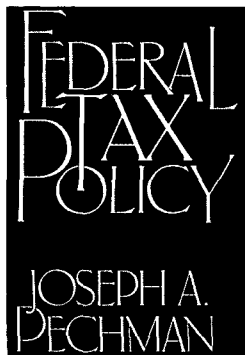


Brookings Governmental Studies program. The other contributors are Thomas E. Mann, director of the Governmental Studies program, Stephen Hess and James L. Sundquist, senior staff in that program; Albert R. Hunt, Washington bureau chief of *The Wall Street Journal*; Everett Carl Ladd of the University of Connecticut; Milton D. Morris and Eddie N. Williams of the Joint Center for Political Studies; Robert Goldberg of USI Incorporated; and Kay Lawson of San Francisco State University.

Tax Policy Clarified

Federal Tax Policy, Fifth Edition

By Joseph A. Pechman
\$10.95 paper; \$28.95 cloth



ONE OF THE ARCHITECTS of comprehensive tax reform has revised his widely acclaimed book on tax policy to reflect all major changes in federal tax laws since 1983, including the Tax Reform Act of 1986. Joseph A. Pechman's *Federal Tax Policy* is a nontechnical book written for general readers and students interested in taxation as an instrument of public policy. It emphasizes current tax issues such as comprehensive income taxation, the effects of taxation on economic incentives, inflation adjustments for income tax purposes, the relative merits of graduated income taxes and expenditure taxes, and changes in the fiscal relations between the federal, state, and local governments.

In addition to explaining how most forms of taxation work, Pechman presents and evaluates contrasting views on personal and corporate income taxes, general and selective consumption taxes, payroll taxes, estate and gift taxes, and property taxes. The book also contains a useful series of statistical tables on tax developments and an extensive bibliography on tax theory and practices. Pechman, director of the Economic Studies program at Brookings from 1962 to 1983, is now a senior fellow. He is the author or coauthor of numerous books on tax policy.

Needed: National High-Tech Policy

Targeting the Computer: Government Support and International Competition

By Kenneth Flamm
\$11.95 paper; \$31.95 cloth

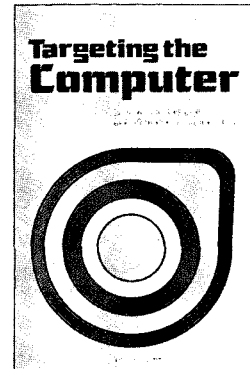
THE UNITED STATES urgently needs a high-technology policy to stimulate a more efficient mixture of cooperation and competition among private companies and between industry and universities, Kenneth Flamm writes in *Targeting the Computer: Government Support and International Competition*.

Flamm, a senior fellow in Brookings' Foreign Policy Studies program, focuses on the computer because it is the most research-intensive commercial product on the market, with a history that mirrors the development of high-technology industry in the United States after World War II. In the United States, he notes, the computer "was guaranteed a special status by the willingness of the military services to push its development when civil authorities seemed to lack the interest, the will, or the resources." However, Flamm writes, military objectives sometimes lead in different technical directions from commercial interests, specialized military contractors may perform poorly in commercial markets, and volatility in defense budgets discourages long-term investments in the industrial technology base.

In Europe and Japan, funding for computer development has been primarily

commercially oriented, Flamm writes. Japan pioneered the concept of computer research projects jointly funded by government and industry. In this way, Flamm says, the Japanese have succeeded in sharing the costs of the most risky basic exploration, where companies face difficulties in capturing a return on their investment, and then letting market forces guide conversion of the results into commercial products manufactured by individual companies. By any standard, the Japanese policy of matching private with public funds in joint research efforts seems to have generated large returns from relatively limited investments.

As American industry faces an increasingly competitive world market, Flamm says that achieving a greater economic return on relatively scarce research resources ought to be a major objective of public policy. Using federal funds or tax expenditures to underwrite the costs of joint investment by groups of companies in basic industrial technology development "would pull more resources into the applied research and generic technology development undertaken by these organizations, as well as raise the overall level of R&D investment," he adds.



Broader Services from Narrow Banking

WITH BANKS AND THRIFTS failing at an ever-increasing pace, policymakers are debating whether to overhaul the entire financial system by removing the legal barriers that prevent banks from engaging in other financial and nonfinancial enterprises. In *What Should Banks Do?*, Robert E. Litan makes a major contribution by presenting evidence on each of the key issues the debate has raised and then detailing a novel, if controversial, proposal — narrow banking — to resolve those issues.

A senior fellow in Brookings' Economic Studies program, Litan argues that whether or not action is taken at the federal level, continuing technological advances and deregulation by the states will inevitably blur the legal distinctions between banks and nonbanks. This process will benefit American consumers and taxpayers, by enhancing competition (especially in investment banking), lowering costs, and perhaps making depository institutions safer. But it also poses some dangers; some banks may abuse their greater freedom to take risks and to exploit conflicts of interest.

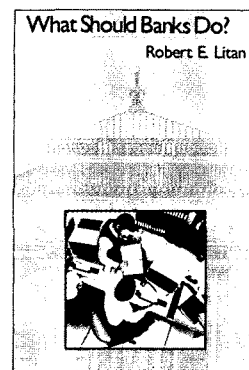
To gain these benefits without incurring the risks, Litan offers a concept he calls narrow banking, which would permit any banking organization to engage in activities beyond those currently permitted but only under certain conditions. Specifically, in exchange for broader powers, these organizations would have to separate their deposit-taking and lending activities. Proceeds from deposits would have to be invested in safe, liquid securities, notably U.S. Treasury issues and securities guaranteed by the federal government or by quasi-governmental organizations such as Fannie Mae. Lending would be conducted by a separate entity and would be funded through the uninsured securities markets as major commercial finance companies are today.

Litan argues that narrow banking eliminates the major risks of financial product deregulation. If the nonbank operations of financial supermarkets were to fail, the insured banks would be protected, both because they would hold only safe securities and because they would not be permitted to prop up their affiliates by lending to them or their customers. Because narrow banks could not make loans, concerns about conflicts of interest would not arise.

What Should Banks Do?

By Robert E. Litan

\$9.95 paper; \$26.95 cloth



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